IQ

2003–2004 Annual Report

Investissement Québec: Serving the Business Community

2003–2004 Annual Report

Content Development and Writing: Department of Performance Appraisal
and Department of Accounting and Treasury
Revision: Department of Communications and Marketing
Desktop Publishing: FormaConseil inc.
Computer Graphics: Caractera
Printing: Transcontinental Québec
Creative and Production Coordination: Department of Communications and Marketing

© Investissement Québec, June 2004
Legal Deposit: 2004
Bibliothèque nationale du Québec
National Library of Canada

ISBN : 2-550-42791-2

Note: In this document, the names of the different government departments are those in effect during the 2003-2004 fiscal year.

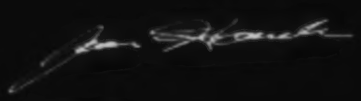
Statement from the President and Chief Executive Officer

The information presented in this annual report is my responsibility. This responsibility includes the reliability of the data in the report and the related controls.

The results and data disclosed in Investissement Québec's 2003-2004 annual report:

- describe faithfully the mission, mandates and values of the Corporation;
- present the objectives, indicators and results;
- present accurate and reliable data.

I declare that the data disclosed in this annual report, as well as the related controls, are reliable and that they reflect the situation as it existed on March 31, 2004.



Jean Houde
President and Chief Executive Officer

Québec City, June 1, 2004

Table of Contents

5 Introduction
6 Corporate Profile
7 Highlights of 2003-2004
8 Message from the President and Chief Executive Officer
11 Year's Review
12 Overall Performance
15 Investment Growth
29 Client Service
31 An Economically Profitable Corporation
32 Economic Profitability Ratio
34 Impact by Program
39 Impact on Québec Economy
41 Management
42 Corporate Governance and Organizational Structure
46 Human Resources
48 Management Instruments
49 Management of Financial and Operational Risks
51 Financial Information
53 Financial Review by Management
56 Financial Statements
83 Appendices

SECTION

Introduction

1

Corporate Profile 6
Highlights of 2003-2004 7
Message from the President and Chief Executive Officer 8

"Investi ... competitive ... ing us the me ...

Sylvie Lemaire, ...

SECTION

Introduction

1

Corporate Profile 6
Highlights of 2003-2004 7
Message from the President and Chief E

"Invest
the me
Sylvie Lemaire

Corporate Profile

Mission
The mission of the Corporation is to promote investment growth in Québec and thus contribute to the economic development of Québec and the creation of jobs.

Vision
Contribute, as a successful organization, to the implementation of investment projects that have a major impact on the economic development of Québec and its regions.

Values
Competence, team spirit and initiative
Trust, openness and efficiency, the underpinnings of its client relations
Effectiveness, rigour and transparency in management

Scope of Activities
We offer financial products that complement those of private or public financial institutions.
We manage economic development tools on behalf of the government.
We offer expertise in financing and tax measures.
We offer expertise in foreign prospecting.

Clientele
Companies
Investors
Government departments and agencies

Partners
Financial institutions
Government departments and agencies
Regional or sectoral associations
Cooperative movement
Social economy organizations
Venture capital corporations

Highlights of 2003-2004

For the period from April 1, 2003 to March 31, 2004, Investissement Québec authorized 1,190 financing operations totalling $1.1 billion, which will lead to investment projects valued at $5 billion and create 7,683 jobs[1] over a three-year period.

Of these operations, 824 helped finance the investment projects of companies whose financial structure generally exceeds the risk threshold of private financial institutions; this type of financing is known as complementary financing.

Investissement Québec also used the economic development tools that it manages on behalf of the government to support 366 investment projects of Québec or foreign companies.

Financial Support	Complementary Financing	Economic Development Tools	Total Financing
Financing operations	824	366	1,190
Financing granted	$237.2 M	$825.6 M	$1,062.8 M
Value of projects declared	$778.7 M	$4,212.0 M	$4,990.7 M
New jobs declared	3,412	4,271	7,683

Expertise	
Recommendations for external organizations	124
Fiscal measures related to job creation	
New certificates and attestations	470
Attestation renewals	883

Financial Data	
Value of portfolio	$3,072.5 M
Net income	$41.3 M
Equity	$223.3 M

1. According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.

Message from the President and Chief Executive Officer

Investissement Québec experienced one of its best years in 2003-2004.

At the beginning of the year, the change in government modified the environment in which the Corporation operates and sparked a review of the government's priorities and methods of intervening in the economy. Investissement Québec was then asked to explain its orientations and activities before the National Assembly's Parliamentary Commission on Public Finances. During the fall, its mission and activities were also assessed by the Task Force on the role of the Québec government in venture capital, created by the Minister of Economic and Regional Development and Research, Michel Audet, and chaired by Pierre Brunet.

At the end of this reflection period, the Corporation emerged with a confirmed mission, a revised business plan, new assessment criteria for its activities and an outstanding annual result in the financing field. In fact, we authorized 1,190 financing operations totalling $1.1 billion, contributing to the implementation of projects evaluated at five billion dollars.

The Corporation also participated in the completion of 51 projects of foreign companies, with a total estimated value of $1.4 billion. It continued to provide its financial expertise to public agencies and administer several fiscal measures. Its activities continued smoothly in the financial analysis sector and increased sharply in that of fiscal measures, particularly those related to the resource regions. The Corporation posted net income of $41.3 million for the current year.

I am proud of these results, which serve as an eloquent testimony to the relevance of a Corporation like ours. Promoting investment growth in order to contribute to economic development and job creation – this is our mission, now more than ever.

In the wake of the reflection exercise carried out by the task force directed by Pierre Brunet, we also streamlined our administrative structure to adapt it to new demands. As a result, all of our administrative units have been grouped together under the single banner of Investissement Québec.

In June 2003, I enthusiastically joined a team which, for many years, has played a defining role for numerous companies established in Québec. Over the months, drawing on the Corporation's impressive wealth of professional expertise, we worked together to define a vision of Investissement Québec, which can be summed up in a few words: a successful organization that supports the implementation of projects with a major impact on the economic development of Québec and its regions; in short, an organization that makes a difference for companies and for society as a whole.

In 2003-2004, we made a difference by acting as a complementary financial institution in the private sector or by using economic development tools. We therefore made it possible for projects to be completed that would never have seen the light of day for lack of financing; for companies to set up operations in Québec rather than elsewhere in the world; for the subsidiaries of multinationals to obtain international mandates and to develop here.

We make this difference by putting the entrepreneur and his project at the centre of our concerns, in keeping with our mission. We work throughout Québec, giving special emphasis to the regions, where we make more than three quarters of our financing decisions and where we maintain a major network of business centres that we will be expanding over the coming months.

We will forge ahead in 2004-2005, focusing on four priorities. We will put the accent on business development. We will give particular attention to the risk quality of our operations. We will be motivated by a constant concern for quality client service, which will become one of the assessment criteria for our activities. Lastly, we will strive to increase the self-financing of our operating expenses, the rate of which will constitute another basic performance indicator.

It is in this spirit that the members of management and staff commit themselves to serving the business community, with confidence and optimism.

Jean Houde
President and Chief Executive Officer

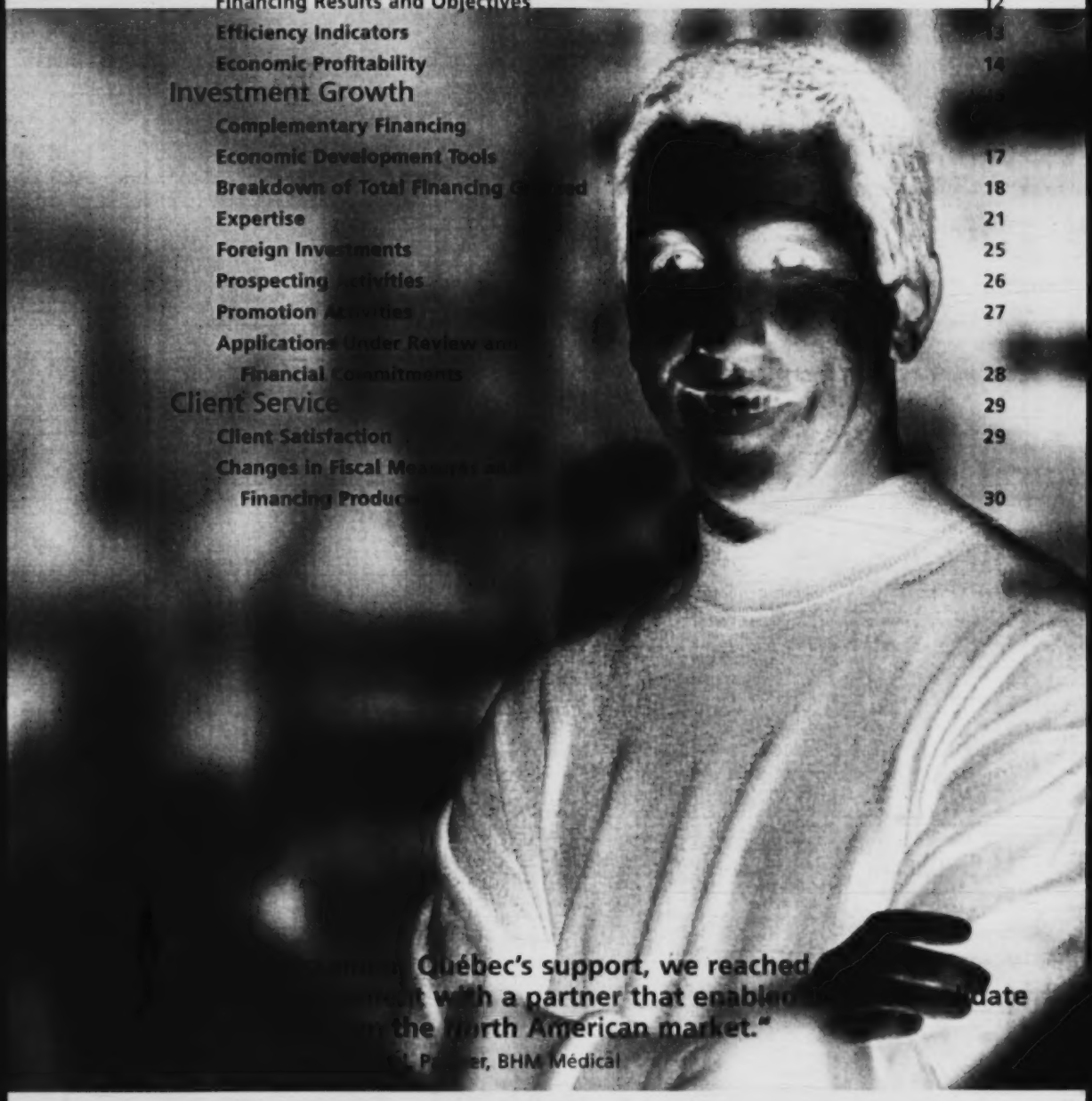
SECTION

Year's Review 2

Overall Performance 12
- Financing Results and Objectives 12
- Efficiency Indicators
- Economic Profitability 14

Investment Growth
- Complementary Financing
- Economic Development Tools 17
- Breakdown of Total Financing 18
- Expertise 21
- Foreign Investments 25
- Prospecting Activities 26
- Promotion Activities 27
- Applications Under Review and Financial Commitments 28

Client Service 29
- Client Satisfaction 29
- Changes in Fiscal Measures and Financing Products 30



Québec's support, we reached
with a partner that enabl date
the North American market."
, Partner, BHM Médical

SECTION

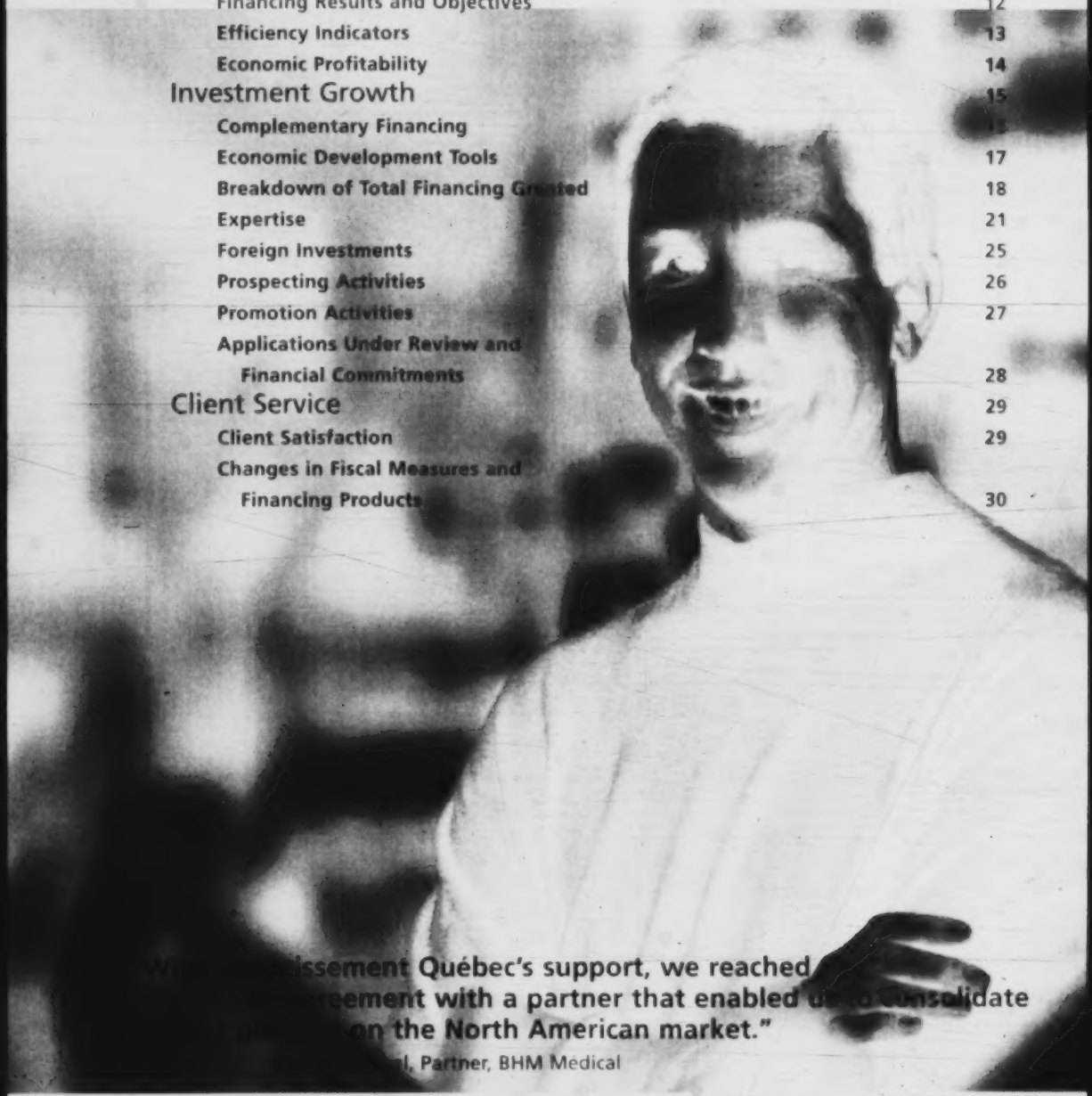
Year's Review

2

Overall Performance 12
- Financing Results and Objectives 12
- Efficiency Indicators 13
- Economic Profitability 14

Investment Growth 15
- Complementary Financing
- Economic Development Tools 17
- Breakdown of Total Financing Granted 18
- Expertise 21
- Foreign Investments 25
- Prospecting Activities 26
- Promotion Activities 27
- Applications Under Review and Financial Commitments 28

Client Service 29
- Client Satisfaction 29
- Changes in Fiscal Measures and Financing Products 30



...issement Québec's support, we reached ...reement with a partner that enabled ... on the North American market."

..., Partner, BHM Medical

Overall Performance

Investissement Québec's overall performance in 2003-2004 was very good, even though Québec's economic growth was weaker than the Corporation had anticipated in its 2002-2005 business plan. In fact, the GDP increased by 1.6% in Québec, which is lower than the 4.2% forecast in its business plan.

Investissement Québec measures its performance in terms of its objectives, efficiency indicators and economic profitability. It therefore compares its financing and investment results to the objectives set in its business plan. It then uses four efficiency indicators, namely, the productivity of its personnel, the return on its financing operations, the satisfaction of its clientele and the number of applications under review. Lastly, it demonstrates the economic profitability of its actions according to the tax and incidental tax revenues it generates and its net costs. The total tax revenue attributable to Investissement Québec is calculated according to the degree of incentive of the financial aid granted. This financial aid can take the form of complementary financing[2] or incentives[3] aimed at promoting the implementation of investment projects in Québec.

Financing Results and Objectives

The number of financing operations authorized remained stable compared with the previous year. Excluding Investissement Québec's participation in two aluminum smelter projects worth a total of $2.5 billion in 2002-2003, financing granted and the declared value of projects increased by 16% and 11%.

Job creation followed the trend of the past few years, declining by 53% for overall financing operations compared with the previous year. In fact, companies implemented projects that were more capital-intensive than labour-intensive.

Financing Operations, 2001-2004

	2003-2004	2002-2003 [2]	2001-2002 [2]
Number	1,190	1,209	1,117
Financing authorized	$1,062.8 M	$1,346.7 M	$1,050.4 M
Declared value of projects	$4,990.7 M	$6,966.7 M	$4,580.1 M
Number of existing jobs [1]	43,204	58,022	58,206
Number of new jobs declared	7,683	16,516	19,127

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.
(2) Certain data may not correspond to the results presented in the 2001-2002 and 2002-2003 annual reports. Adjustments were made during the year, including the addition of the results of the Immigrant Investor Program to the Corporation's overall results.

2 Financing of export, research and development, working capital increase, major expansion or set-up projects completed by companies whose financial structure exceeds the risk threshold tolerated by private financial institutions.
3 Economic development tools that the Corporation manages on behalf of the Québec government.

In 2003-2004, the Corporation financed projects worth a total of $5 billion, exceeding the $2.8 billion objective set in its annual plan by 79%.

Value of Projects Financed, by Objective

	Value ($M)	
Program	Objectives	Results
FAIRE [1]	840	1,427
Buyer Credit	600	2,181
SMB Financial	760	683
Capitalization of Social Economy Enterprises and Financing of Group Entrepreneurship	80	70
Biolevier	85	107
SMB Spark	18	25
Immigrant Investor	385	471
Total	**2,768**	**4,964** [2]

(1) Including government mandates financed with funds from the FAIRE program.
(2) Not including the support program for suppliers and subcontractors, whose projects are estimated at $26 million.

Efficiency Indicators

Over the past three years, productivity has been maintained at 3.2 financing operations per person as indicated in the table on the following page. The average value of investments reached $5.61 million, or 20% more than in 2002-2003, not including the two major aluminum smelter projects. However, the leverage effect on investment and job creation was weaker than in previous years: companies needed more financing to complete their projects. Despite everything, this year, the Corporation was able to finance 35% of its administrative and operating expenses itself.

Efforts made to improve client satisfaction paid off, since 88% of the clientele expressed satisfaction with the services offered by the Corporation, compared with 86% in 2002-2003. One main client concern was the time required to process a financing application. The average period is 25 days[4], a 16% improvement over the previous year.

The number of financing applications under review as at March 31, 2004 is lower this year, with a total of 462 versus 641 as at March 31, 2003. This decline affects both regular long-term financing programs and major projects.

4 All financing programs combined.

Efficiency Indicators, 2001-2004

	2003-2004	2002-2003 [1]	2001-2002 [1]
Productivity			
Number of financing operations per person	3.2	3.2	3.1
Average financing authorized per person	$2.89 M	$3.56 M	$2.87 M
Average value of projects financed per company	$5.61 M	$6.99 M	$4.82 M
Number of jobs created per company	9	17	20
Return			
Investment per $1 of financing	$4.69	$5.17	$4.36
Jobs created per $1 M of financing	7	12	18
Expenses per $100 of financing operation authorized and administered	$3.82	$3.08	$3.59
Self-financing of administrative and operating expenses	35%	34%	29%
Client satisfaction			
Average processing time for a financing application (days)	25	30	34
General satisfaction of clients [2]	88%	86%	91%
Number of financing applications under review	462	641	728

(1) Certain data may not correspond to the results presented in the 2001-2002 and 2002-2003 annual reports. Adjustments were made during the year, including the addition of the results of the Immigrant Investor Program to the Corporation's overall results.
(2) See the section entitled "Client Satisfaction" on page 29 for the calculation of this percentage.

Economic Profitability

Over the past few years, the Corporation has shown that its financing operations were profitable, maintaining an economic profitability ratio above 1. In 2003-2004, tax and incidental tax reached $2.5 billion, $693.3 million of which is directly attributable to Investissement Québec. Since the Corporation's net costs were $371.4 million, this year's economic profitability ratio stood at 1.87/1, or $1.87 of tax revenue for each dollar of cost.

Economic Profitability of the Corporation's Operations [1], 2001-2004

	2003-2004	2002-2003	2001-2002
Tax and incidental tax revenue attributable to the Corporation's operations			
Related to project completion	$69.2 M	$121.7 M	$129.9 M
Related to companies' activities	$624.1 M	$526.8 M	$517.2 M
Total revenue: projects and activities	$693.3 M	$648.5 M	$647.1 M
Net costs for the government	$371.4 M	$245.5 M	$215.9 M
Cost-benefit ratio	1.87/1	2.64/1	3.00/1

(1) The method used to calculate the economic impact attributable to Investissement Québec is summarized in Appendix 6.
(2) The evaluation considered the files of companies whose fiscal years end between July 1, 2002 and June 30, 2003.

Investment Growth

For the third straight year, the Corporation carried out more than one thousand financing operations; in fact, it authorized 1,190 operations to support the projects of 890 businesses for a total value of $5 billion. In the following pages, these financing operations are broken down by complementary financing program, economic development tool, region, sector and type of operation.

Total Financing Granted, 2003-2004

	Number of Financing Operations		Value ($M)		Number of Jobs Declared by Companies[1]	
Program or Program Segment	Objectives[2]	Authorizations	Financing	Projects	Existing	New
Complementary financing	748	824	237.2	778.7	18,867	3,412
Economic development tools	266	366	825.6	4,212.0	24,337	4,271
Total	1,014	1,190	1,062.8	4,990.7	43,204	7,683

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.
(2) The objectives by program or program segment of the 2003-2004 action plan were revised during the year.

Complementary Financing

Investissement Québec generally supports companies whose financial structure exceeds the risk threshold tolerated by private financial institutions. It complements the financing offered by these institutions, which allows companies to complete their start-up, expansion, research and development, export or working capital increase projects.

This year, the Corporation exceeded its objective by 10%, authorizing 824 complementary financing operations. As indicated in the table on the following page, over 75% of this financing was authorized as part of the SMB Financial program, mainly for production and alliance projects, where results exceeded the established objective by 42%. In all, the Corporation granted $237 million to support investment projects worth $779 million, which should create 3,412 jobs.

Complementary Financing Granted by Program or Program Segment, 2003-2004

	Number of Financing Operations		Value ($M)		Number of Jobs Declared by Companies[1]	
Program or Program Segment	Objectives[2]	Authorizations	Financing	Projects[1]	Existing	New
SMB Financial						
Production and alliance	98	139	62.7	166.9	4,388	1,088
Research and development						
Tax credit	317	349	78.3	352.3	7,984	1,076
Development	26	21	21.7	59.3	662	115
Exports						
Line of credit	62	69	15.8	39.5	1,478	149
Marketing	40	28	12.4	38.7	731	169
Working capital						
Ad hoc 3	6	5	1.8	5.8	339	2
Growth	17	9	2.5	4.3	494	13
Recovery	10	3	1.0	2.1	149	0
Experimentation measure	3	5	3.6	14.3	170	42
Sub-total	**579**	**628**	**199.8**	**683.2**	**16,395**	**2,654**
Specific programs						
Group entrepreneurship						
Cooperatives	45	50	16.8	33.2	1,375	171
NPO	30	27	12.6	27.9	410	144
Capitalization of social economy enterprises						
Cooperatives	15	36	1.4	4.0	105	25
NPO	25	22	1.1	5.3	335	22
SMB Spark	54	61	5.5	25.1	247	396
Sub-total	**169**	**196**	**37.4**	**95.5**	**2,472**	**758**
Total	**748**	**824**	**237.2**	**778.7**	**18,867**	**3,412**

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.
(2) The objectives by program or program segment of the 2003-2004 action plan were revised during the year.

Economic Development Tools

Economic development tools comprise mainly financial incentives that the Corporation manages on behalf of the government and that are aimed at increasing investment in Québec. These incentives are intended for both Québec and foreign companies that have small, medium or large-scale projects. For example, the Biolevier program supports capitalization needs in the biotechnology sector while the Immigrant Investor Program contributes to the financing of SMBs through non-refundable contributions.

The number of financing operations authorized this year as part of these programs totalled 366, or 37.6% more than the objectives established in the Corporation's action plan. Investment projects declared by companies are estimated at $4.2 billion and should help create 4,271 jobs. The financing of buyer-credits and the FAIRE program account for more than 85% of investments. However, 60% of the new jobs declared by companies are attributable to the Immigrant Investor Program. In all, client companies received $825.6 million in financial support from Investissement Québec.

Financing Granted by Economic Development Tool, 2003-2004

	Number of Financing Operations		Value ($M)		Number of Jobs Declared by Companies[1]	
Program	Objectives[2]	Authorizations	Financing	Projects	Existing	New
Biolevier	5	5	42.5	107.1	174	74
Buyer credit	58	81	409.5	2,181.5	0	0
FAIRE	39	25	106.4	1,134.6	7,592	1,362
FAIRE (Government Mandates)	5	3	202.6	292.0	1,759	292
Immigrant Investor	159	236	51.6	470.8	13,578	2,543
Support for Suppliers and Subcontractors	n. avail.	16	13.0	26.0	1,234	0
Total	**266**	**366**	**825.6**	**4,212.0**	**24,337**	**4,271**

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.
(2) The objectives of the 2003-2004 action plan were revised during the year.

Breakdown of Total Financing Granted

Financing by Administrative Region

Economic activity in Québec was highly concentrated in the metropolitan regions[5], the same held true for the financing operations authorized by the Corporation. Thus, the metropolitan regions garnered 60% of the financing granted this year by Investissement Québec, which made it possible to back projects representing 73% of investments. The resource regions[6], for their part, obtained 29% of financing and 16% of total investments.

Financing Granted by Administrative Region, 2003-2004

		Value ($M)		Number of Jobs Declared by Companies[1]	
Administrative Region	Number of Financing Operations	Financing	Projects	Existing	New
01- Bas-Saint-Laurent	50	13.6	49.0	1,425	250
02- Saguenay–Lac-Saint-Jean	72	30.6	246.0	2,154	284
03- Capitale nationale	117	38.8	168.3	3,354	605
04- Mauricie	27	14.6	73.5	1,753	622
05- Estrie	54	21.7	81.2	2,081	319
06- Montréal	323	502.5	2,621.6	9,449	1,826
07- Outaouais	36	11.7	36.5	705	130
08- Abitibi-Témiscamingue	20	33.4	123.4	367	159
09- Côte-Nord	13	197.5	271.4	1,912	86
10- Nord-du-Québec	20	8.4	16.8	261	15
11- Gaspésie–Îles-de-la-Madeleine	20	13.1	42.3	917	241
12- Chaudière-Appalaches	77	24.7	89.9	3,374	413
13- Laval	52	35.6	99.5	1,383	210
14- Lanaudière	40	12.8	129.0	3,323	355
15- Laurentides	52	15.4	68.4	1,312	368
16- Montérégie	164	74.1	727.0	7,311	1,419
17- Centre-du-Québec	53	14.3	146.9	2,123	381
Total	**1,190**	**1,062.8**	**4,990.7**	**43,204**	**7,683**
Total–Resource Regions	**222**	**311.3**	**822.4**	**8,789**	**1,657**

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.

Financing by Economic Sector

There were numerous financing operations in the secondary (61.5%) and tertiary (36.7%) sectors; in addition, 68.1% of the value of the financing authorized by the Corporation was granted to companies from the secondary sector versus 13.2% to companies from the tertiary sector. The manufacturing sector alone accounted for $4.2 billion in investments, or 84.6% of the total value of the projects supported by Investissement Québec. The services sector garnered investments totalling $488.7 million (9.8%).

5 The metropolitan regions include the following administrative regions: Montréal, Laval, Montérégie, Laurentides and Lanaudière.
6 The resource regions considered in this table are: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

Financing Granted by Economic Sector, 2003-2004

Economic Sector	Number of Financing Operations	Value ($M)		Number of Jobs Declared by Companies[1]	
		Financing	Projects[2]	Existing	New
Primary					
Agriculture and fishery	10	1.7	12.3	330	64
Forestry	8	1.0	2.0	356	63
Mining	3	196.1	265.3	1,767	0
Sub-total	**21**	**198.8**	**279.6**	**2,453**	**127**
Secondary					
Food and beverage	68	23.4	109.7	3,715	558
Rubber and plastic	50	17.1	141.8	3,995	594
Leather industry	3	1.0	5.0	223	16
Textile products and primary processing textile	8	2.9	20.8	782	128
Clothing	13	2.1	7.7	623	118
Wood products	82	55.8	232.5	3,391	895
Furniture	37	10.1	48.7	1,675	368
Paper	12	18.8	254.7	1,017	126
Printing	20	5.3	28.8	586	153
Primary processing metals and metal products	84	49.9	581.7	5,445	424
Machinery	79	19.3	84.4	2,083	425
Transportation equipment	112	431.1	2,293.3	2,462	871
Electrical and electronic products	72	42.8	218.8	3,583	496
Non-metallic mineral products	19	4.4	19.3	578	142
Refined oil, coal and chemical industry products	47	33.7	146.4	1,311	213
Various manufacturing industries	26	6.2	28.7	674	99
Sub-total	**732**	**723.9**	**4,222.4**	**32,143**	**5,626**
Tertiary					
Professional, scientific and technical services	62	41.7	113.1	990	228
Design of computer systems and related services	130	26.6	99.7	1,931	468
Health care and social services	20	2.3	10.2	248	60
Other corporate services	6	1.0	1.8	41	34
Lodging and food services	25	4.3	37.5	515	150
Various services	194	64.2	226.4	4,883	990
Sub-total	**437**	**140.1**	**488.7**	**8,608**	**1,930**
Total	**1,190**	**1,062.8**	**4,990.7**	**43,204**	**7,683**

[1] According to the data provided by companies, project completion and job creation are spread over a maximum period of three years.

Financing by Type of Financing Operation

In 2003-2004, Investissement Québec's client companies mainly opted for the loan guarantee or the financial commitment guarantee in order to be able to contract loans more easily from private financial institutions. These guarantees represent 80.2% of the complementary financing authorized during the year and 75.5% of the value of financing operations.

To a lesser degree, companies favoured the loan and the equity loan. The financing operations authorized in this regard represent 16.3% of complementary financing and 24.4% of the value of financing operations.

Complementary Financing–Type of Financing Operation, 2003-2004

	Number of Financing Operations	Value of Financing
Loan guarantee	68.4%	65.2%
Financial commitment guarantee	11.8%	10.3%
Loan	10.6%	8.1%
Equity loan	5.7%	16.3%
Assumption of interest	3.5%	0.1%

As indicated in the table below, Investissement Québec granted mainly non-refundable or conditional-refund contributions (68.8% of operations) as part of the Immigrant Investor and FAIRE programs.

Financial commitment guarantees represent the largest share of financing authorized this year (45.3%).

Economic Development Tools–Type of Financing Operation, 2003-2004

	Number of Financing Operations	Value of Financing
Financial commitment guarantee	14.5%	45.3%
Loan guarantee	7.7%	4.3%
Loan	4.6%	1.7%
Equity loan	1.9%	9.3%
Interest-free loan	2.2%	2.8%
Conditional-refund contribution	0.5%	21.4%
Non-refundable contribution	68.3%	12.8%
Others	0.3%	2.4%

Expertise

Recommendations to External Organizations

Recognized for its financial expertise, Investissement Québec acts as an analyst and advisor for government departments and agencies. During the year, it analyzed 124 investment projects, primarily for the Ministère du Développement économique et régional et de la Recherche[7] (88.7%). These projects, which obtained $9.8 million in financing, represent investments of $133.4 million. The Corporation therefore exceeded the objective of 99 recommendations to external organizations that it had set for 2003-2004.

Recommendations to External Organizations

	2003-2004	2002-2003
Ministère du Développement économique et régional et de la Recherche		
Programme de soutien aux projets économiques (P.S.P.E.)	110	159
Fonds de développement économique de la capitale nationale	8	15
Association touristique régionale de la Gaspésie	6	12
Total	**124**	**186**

Fiscal Measures Related to Job Creation

Since March 2000, fiscal measures related to job creation have been helping support businesses that create jobs in highly promising sectors (new economy, biotechnology, information and communications technologies, etc.) or in resource regions in Québec. Investissement Québec issues eligibility attestations or certificates to these companies.

Attestation and certificate applications come from new companies as well as companies already benefiting from fiscal measures, which have to demonstrate each year that they meet the eligibility conditions. In 2003-2004, the Corporation issued 470 new eligibility attestations to companies that expected to create some 6,739 jobs over a maximum period of three years, which is 45% higher than the objective of 325 new attestations it had set for the fiscal year. This outstanding result can be attributed to the additional responsibilities entrusted to Investissement Québec concerning the Bureau du commerce électronique and to the very high demand for tax credits for processing activities in the resource regions.

7. Investissement Québec advises this government department mainly regarding the Programme de soutien aux projets économiques (P.S.P.E.).

New Certificates and Attestations by Fiscal Measure

		New Certificates and Attestations		New Jobs[1][2]	
Fiscal Measure	2003-2004 Objectives	2003-2004	2002-2003	2003-2004	2002-2003
Information Technology Development Centres (CDTI)	5	2	7	60	191
Cité Multimédia	5	12	11	322	532
New Economy Centres (CNE)	40	49	73	1,060	2,225
Centre national des nouvelles technologies de Québec (CNNTQ)	5	13	23	285	1,183
Biotechnology Development Centres (CDB)	15	2	n. a.	65	n. a.
Tax credit for Gaspesie and other maritime regions	10	14	13	167	588
Tax credit for Innovation Centres	20	4	4	221	91
Tax credit for nutraceuticals and functional foods	5	1	1	24	29
Tax credit for processing activities in resource regions	120	215	152	2,592	2,915
Biotechnology development	5	1	n. a.	5	n. a.
Tax credit for the production of multimedia titles	88	115	117	n. avail.	n. avail.
Tax credit for the Technopôle Angus	2	0	1	n. avail.	n. avail.
Tax credit for the Aluminum Valley	5	16	9	151	100
E-Commerce Place	n. a.	0	n. a.	0	n. a.
E-business activities	n. a.	26	n. a.	1,787	n. a.
Total	**325**	**470**	**411**	**6,739**	**7,854**

(1) According to the plan provided by companies, project completion and job creation are spread over a maximum period of three years.
(2) To avoid double counting, these jobs are not added to those related to financing projects.
(3) Responsibility for the Bureau du commerce électronique was entrusted to Investissement Québec on April 1, 2003.

Investissement Québec also renewed a large number of eligibility attestations[8] for companies that were already benefiting from fiscal measures for more than one year. In 2003-2004, 883 attestations were renewed, 43% of which were for the New Economy Centres (CNE), 18% for the Centre national des nouvelles technologies de Québec (CNNTQ), and 13% and 12% respectively for the Cité Multimédia and the Information Technology Development Centres (CDTI).

8 Attestations were issued based on the eligibility of activities, employees, equipment or foreign specialists.

The number of attestations renewed was 31% above the stated objective, mainly because the number of applications related to the Centre national des nouvelles technologies de Québec (CNNTQ) was greater than expected. In fact, companies registered before June 12, 2003 can continue to benefit from certain now-abolished fiscal measures, according to the conditions initially established. The number of attestation renewals related to e-business activities also increased this year.

Attestation Renewals by Fiscal Measure

	2003-2004 Objectives	2003-2004	2002-2003
Information Technology Development Centres (CDTI)	106	102	132
Cité Multimédia	110	119	127
New Economy Centres (CNE)	360	376	299
Centre national des nouvelles technologies de Québec (CNNTQ)	100	155	156
Biotechnology Development Centres (CDB)	0	3	n. a.
E-Commerce Place	n. a.	30	n. a.
E-business activities	n. a.	61	n. a.
Tax credit for nutraceuticals and functional foods	0	2	n. a.
Tax credit for Innovation Centres	0	2	n. a.
Tax credit for processing activities in resource regions	n. a.	33	n. a.
Total	**676**	**883**	**714**

(1) Responsibility for the Bureau du commerce électronique was entrusted to Investissement Québec on April 1, 2003.

Fiscal Measures by Administrative Region

New companies that benefited from fiscal measures in 2003-2004 are spread across all of Québec. However, four regions dominate: Montréal (119), Saguenay–Lac-Saint-Jean (104), Mauricie (59) and Bas-Saint-Laurent (43). The resource regions alone represent 55% of the attestations or certificates issued.

The Montréal and Saguenay–Lac-Saint-Jean regions were very active in creating jobs; in fact, they account for 51% of the 6,739 new jobs. Fiscal measures in the Montréal region, notably the measure related to e-business activities, helped create more jobs than in 2002-2003, with 2,109 new jobs versus 557 a year earlier.

New Certificates or Attestations by Administrative Region

	New Certificates or Attestations		New Jobs [1]	
Administrative Region	2003-2004	2002-2003	2003-2004	2002-2003
01- Bas-Saint-Laurent	43	49	473	690
02- Saguenay–Lac-Saint-Jean	104	35	1,332	621
03- Capitale nationale	29	43	587	1,353
04- Mauricie	59	60	873	1,997
05- Estrie	5	8	25	140
06- Montréal	119	105	2,109	557
07- Outaouais	1	4	0	59
08- Abitibi-Témiscamingue	15	22	249	217
09- Côte-Nord	14	12	140	287
10- Nord-du-Québec	3	0	27	0
11- Gaspésie–Îles-de-la-Madeleine	20	16	199	437
12- Chaudière–Appalaches	8	8	159	109
13- Laval	11	4	101	275
14- Lanaudière	6	3	62	48
15- Laurentides	3	9	30	188
16- Montérégie	28	25	342	768
17- Centre-du-Québec	2	8	31	108
Total [2]	**470**	**411**	**6,739**	**7,854**
Total-Resource Regions [3]	**258**	**194**	**3,293**	**4,249**

(1) According to the plan presented by companies, job creation is spread over a maximum period of three years.
(2) To avoid double counting, these jobs are not added to those related to financing operations.
(3) The resource regions considered in this table are: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

Fiscal Measures Related to Business Capitalization

Launched in 1985, Québec Business Investment Companies (QBICs) allow individuals to invest in the common shares of SMBs, in return for tax benefits. The creation of a QBIC involves the incorporation of a joint stock company, the recruitment of shareholders, and the registration and validation of the investment with Investissement Québec. In 2003-2004, the Corporation registered 9 new QBICs and validated 35 new investment projects with a total value of $5.1 million. Registrations and validations for this year are lower than those of 2002-2003 and below the objective set for 2003-2004, due to the moratorium in effect since June 12, 2003.

QBICs mainly supported the regions, unlike the Québec venture capital industry which, in 2003, concentrated its investments in the Montreal and Capitale nationale regions. The regions received 65% of the amounts invested by QBICs.

Québec Business Investment Companies

	2003-2004 Objectives	2003-2004	2002-2003
Number of registrations	50	9	34
Number of investments validated	60	35	53
Value of investments ($M)	n. a.	5.1	7.0

Foreign Investments

Through its financing programs and prospecting activities, Investissement Québec helped implement 51 investment projects of foreign companies worth a total of $1.4 billion. These projects will lead to the creation of 4,753 jobs[9].

Foreign Investments, 2003-2004

	Number	Value ($M)
Financed projects		
FAIRE	16	1,296.3
Other programs	1	3.5
Sub-total	**17**	**1,299.8**
Non-financed projects	**34**	**138.4**
Total	**51**	**1,438.2**

Financed Investment Projects

This year, the Corporation financed 17 investment projects of companies under foreign control[10], 16 of which as part of the FAIRE program.

These 16 projects represent investments estimated at $1.3 billion, or 88% of the value of the projects supported by the FAIRE program, compared with 83% last year. According to the Corporation's 2002-2005 business plan, 45% of the total value of investment projects supported under the FAIRE program must be attributable to the projects of foreign companies. Despite the strong competition between Québec and other locations around the world, Investissement Québec far exceeded its objective in 2003-2004.

Certain characteristics distinguish investment projects of foreign companies:

- The average investment of companies under foreign control was nearly four times greater than that of local companies;
- Unlike previous years, the number of expansion projects exceeded that of set-up projects;
- The subsidiaries of foreign companies export an average of 88% of their production, compared with 55% for local companies. Therefore, the subsidiaries of foreign companies are more likely to set up operations outside Québec, close to their market.

Non-Financed Investment Projects

Other foreign investment projects were carried out in Québec thanks to the prospecting activities of Investissement Québec, without its financial support. Thus, in 2003-2004, 34 projects evaluated at $138.4 million were implemented. These were mainly labour-intensive projects in the information technology and service sectors.

9 According to the plan provided by companies, job creation is spread over a maximum period of three years.
10 A company is designated as being under foreign control when 50% or more of the voting shares are held outside of Québec.

Prospecting Activities

As part of its prospecting activities, Investissement Québec targeted several foreign companies, offering them regional and sectoral information, possible site locations, financial aid and contact with other private and public economic development stakeholders in Québec.

In 2003-2004, Investissement Québec carried out 140 prospecting initiatives and received 266 missions of foreign investors, achieving 90% of its objectives in this regard.

It should be noted that 220 interest proposals[11] were presented to potential investors around the world.

Prospecting Initiatives Among Foreign Investors

	Objectives	2003-2004	2002-2003
Prospecting initiatives	151	140	193
Missions of potential foreign investors in Québec	299	266	450

During the year, the Corporation did its prospecting mostly in North America, Europe and Latin America. The geographic distribution of its prospecting activities and of foreign investor missions remained virtually unchanged from the previous year.

Geographic Breakdown of Prospecting Activities, 2003-2004

11 Supporting documents for the prospecting approach, presenting the comparative advantages of Québec.

Promotion Activities

Foreign Investors

To support its prospecting activities in foreign markets, Investissement Québec implemented a communication and marketing plan aimed at foreign companies.

This integrated approach, combined with the regular dissemination of information on the Québec economy, allowed the Corporation to obtain several articles in influential foreign publications. It also received 37 foreign journalists.

Investissement Québec continued the publication of its quarterly international investment newsletter distributed to some 6,000 subscribers around the world.

It also collaborated on the organization of several specialized global conventions held in Québec or Canada, in addition to attending numerous events abroad. Investissement Québec therefore participated in 13 major international activities aimed at promoting Québec and the Corporation to foreign investors.

Moreover, it developed a communication strategy for the subsidiaries of foreign companies established in Québec. Aware of the importance of their economic activities, it organized a series of events to develop close business ties with their directors. A quarterly information bulletin was also launched for this clientele and distributed to some 13,000 subscribers.

Québec Investors

In 2003-2004, Investissement Québec designed and implemented a broad range of activities to promote its role and financial products to companies established in Québec.

The Corporation participated in close to 160 public events–conventions, galas, fairs exhibitions and seminars–organized by financial partners, chambers of commerce or sectoral associations. These events included about 15 lectures by the Corporation's president and CEO in several regions of Québec.

In addition to producing and updating its traditional tools (display material, promotional items, print and electronic presentations), Investissement Québec produced a series of thematic brochures on different business situations experienced by Québec companies. These documents are accompanied by about 20 inserts on its products and services, which can be adjusted according to the specific needs of its clientele. Moreover, to facilitate the updating of its documentation, the Corporation initiated a review of its documentary production processes in order to take advantage of the flexibility of digital publishing.

Established three years ago, Investissement Québec's Reception and Information Service meets the need for general information about the Corporation and welcomes visitors from the Montréal and Québec City offices. In 2003-2004, it handled 10,000 enquiries by telephone, by e-mail and at the reception desk. The Corporation's Web site (www.investquebec.com) was also a highly popular source of information, receiving over 106,000 different visitors during the year.

Lastly, Investissement Québec held several press conferences and responded to some 160 requests from the print and electronic media.

Applications Under Review and Financial Commitments

As at March 31, 2004, Investissement Québec had 718 files under review, presenting a positive outlook for the 2004-2005 fiscal year. Of this number, 473 were financing applications and 245 were applications for eligibility attestations or certificates.

Applications Under Review

	March 31, 2004	March 31, 2003
Financing		
Complementary financing	387	515
Economic development tools	86	139
Sub-total	**473**	**654**
Eligibility attestations or certificates for fiscal measures	245	346
Total	**718**	**1,000**

Financing applications for the year were down 28% from those of March 31, 2003.

Applications for eligibility attestations or certificates for fiscal measures decreased by 29% compared with the previous fiscal year. This decline is attributable mainly to the reduction in the number of fiscal measures in effect.

Financial Commitments

Financial commitments refer to the unused amounts of financing operations offered in the form of loans, shares, units, guarantees and financial contributions as well as to fees to financial intermediaries for the closing of immigrant investors' files.

Financial Commitments

	March 31, 2004	March 31, 2003	Variation
Complementary financing	$258 M	$244 M	5.8%
Economic development tools	$1,509 M	$1,849 M	-18.4%
Total[1]	**$1,767 M**	**$2,093 M**	**-15.6%**

(1) Total commitments correspond to Note 25 of the consolidated financial statements.

The decline in commitments stems mainly from a $260 million equity investment in a company during the year. This amount was included in the Corporation's commitments as at March 31, 2003.

Client Service

Client Satisfaction

Service quality is of strategic importance for Investissement Québec. It is defined in terms of reception, professionalism and competence, flexibility, prompt application processing and accessibility. Each year, the Corporation evaluates the level of satisfaction of its clients and partners with regard to its contribution and its collaboration.

Between June 2003 and January 2004, it conducted a survey of 375 companies – mostly new clients[12] – and 256 partner financial institutions. At the end of April 2004, the response rate was 26% for clients and 35% for financial institutions.

Assessed on the basis of five priority aspects, the Corporation's quality of service is generally very much appreciated by its clients and partners, who say overall that they are pleased with Investissement Québec's services, with satisfaction rates of 88% and 95%, respectively.

Satisfaction Rate

	2003-2004		2002-2003	
	Client Companies	Financial Institutions	Client Companies	Financial Institutions
Reception	91%	95%	88%	91%
Professionalism and competence	90%	98%	89%	94%
Adaptability and flexibility	87%	96%	85%	93%
Processing time	79%	89%	78%	81%
Accessibility and visibility	87%	93%	84%	89%
General satisfaction	88%	95%	86%	91%

(1) Satisfaction for all aspects evaluated

This survey also shows the importance that companies and financial institutions place on professionalism and competence. As in years past, this service element is considered the most important and the most satisfying as well as the primary strength of Investissement Québec.

It should be noted that a detailed analysis of the results of the 2003-2004 client satisfaction survey is being carried out and will provide a better comparison of the changes from one year to the next.

12. Companies already surveyed do not receive a new questionnaire.

Changes in Fiscal Measures and Financing Products

In the 2003-2004 budget speech on June 12, 2003, the Québec government modified the fiscal measures managed by the Corporation. Ten tax credits, including the credits related to designated sites, were abolished and other tax credits saw their rates decline. In addition, the plan applicable to QBICs was subject to a moratorium for an indefinite period. On April 1, 2003, Investissement Québec was also entrusted with responsibility for the Bureau du commerce électronique, which managed the E-Commerce Place and e-business activities fiscal measures. As for financing products, certain programs ended and will not be reinstated, such as the SMB Spark program and the Ad Hoc Working Capital segment of the SMB Financial program.

On March 30, 2004, new changes were introduced by the government in its 2004-2005 budget speech. The FAIRE program, which ended on March 31, 2004, was replaced by the Strategic Support for Investment Program (PASI). The purpose of this new program is to further stimulate investments, particularly in the regions and among foreign companies, and to increase the productivity of companies, mainly SMBs.

Various adjustments were also made to improve or simplify fiscal measures in effect. In addition, refundable tax credits related to processing activities in the resource regions, the Gaspésie and certain maritime regions in Québec and the Aluminum Valley were extended for a three-year period, until 2007. Lastly, Investissement Québec was entrusted with the mandate of issuing eligibility attestations for the Montréal Foreign Trade Zone at Mirabel and was given new responsibilities regarding refundable tax credits for the production of multimedia titles.

SECTION

An Economically Profitable Corporation

3

Economic Profitability Ratio 32
Impact by Program 34
- Value of Input 34
- Jobs 36
- Added Value 37
- Québec Government Revenue 38

Impact on Québec Economy 39

bec supported
ng up an innovative project that opened doors
tional markets."

abel, Ph.D., Vice-President, Research and Development
esident and CEO, Planteck Biotechnologies

SECTION

An Economically Profitable Corporation

3

Economic Profitability Ratio 32

Impact by Program 34

Value of Input 34

Jobs 36

Added Value 37

Quebec Government Revenue 38

Impact on Quebec Economy 39

rted

novative projects that opened doors

President, Research and Development

Phanteck Biotechnologies

Economic Profitability Ratio

Investissement Québec systematically evaluates the impact of the projects it finances. In 2003-2004, the Corporation financed projects worth $5 billion. According to projected sales, the companies it supported expect to create 7,683 jobs over the next three years. These new jobs will generate a net increase in employment for the Québec economy.

Firstly, Investissement Québec's model evaluates the impact related to the expansion or construction of buildings, and the manufacture and installation of machinery, which generate activities mainly in the construction and machinery manufacturing industries (*projects* segment). According to the estimate established using the input-output model, the economic impact related to the establishment of assets financed by the Corporation represents a workload of 21,962 person-years. Engineers, architects, construction workers and technicians will generate $192 million in tax and incidental tax revenue for the Québec government.

Secondly, Investissement Québec analyzes the impact of increased annual sales related to the use of assets financed in previous years (*portfolio* segment). For the current fiscal year, the total sales of 83% of client companies were over $25.7 billion. According to the input-output evaluation model, achieving these sales requires a workload of 252,486 person-years. For their part, these workers will generate more than $2 billion in various forms of taxes for the government.

Investissement Québec does not claim credit for the full impact of its clients' activities, but rather for the marginal contribution related to its action. The attribution model is used to evaluate projects whose financial structure exceeds the risk threshold of lending institutions, or projects that would otherwise be implemented outside Québec. In both cases, the model only takes into account the results of companies whose projects generate a net gain for the Québec economy. The result of these operations is used to evaluate the share of the impact attributable to the Corporation's action.

Thus, revenue from the implementation of projects attributable to Investissement Québec is estimated at $69.2 million or 36% of total government revenue, while revenue related to sales is estimated at $624.1 million or 27%. These revenues amount to $693.3 million and constitute the revenue that the government collects from Investissement Québec's activities.

Summary of Economic Impact Related to the Activities and Projects of Client Companies of Investissement Québec

	2003-2004	2002-2003
***Projects* segment**		
Value of simulated projects	$2,685.7 M	$6,036.6 M
Economic impact		
Jobs (person-years)	21,962	40,795
Added value	$1,268.0 M	$2,350.5 M
Québec government revenue	$192.0 M	$348.9 M
***Portfolio* segment**		
Sales[1]	$25,665.2 M	$24,541.7 M
Economic impact		
Jobs (person-years)	252,486	231,828
Added value	$15,879.2 M	$14,458.8 M
Added value per job	$62,891	$62,369
Québec government revenue	$2,009.9 M	$1,817.7 M
Tax and incidental tax revenue attributable to Investissement Québec		
Projects segment	$69.2 M	$121.7 M
Portfolio segment	$624.1 M	$526.8 M
Total revenue attributable to Investissement Québec	**$693.3 M**	**$648.5 M**
Costs	$371.4 M	$245.5 M
Cost-benefit ratio	**1.87/1**	**2.64/1**

(1) According to the sectoral data which is equivalent to the regional data.

The foregoing evaluation shows that, for each dollar of cost generated by the Corporation, the Québec government received $1.87 in tax and incidental tax revenue in 2003-2004. Investissement Québec is therefore an economically profitable corporation, since its objective is to reach a ratio greater than 1.

In relation to the previous fiscal year, the ratio went from 2.64/1 to 1.87/1. This decline is attributable to the increase in the provision for losses[13] which boosted costs for the FAIRE program. However, the ratio over a period of five years stands at 2.93/1, which confirms the Corporation's economic profitability.

13. Details of the provision for losses are presented in Note 9 of the financial statements.

Impact by Program

Evaluated in terms of jobs, added value and tax and incidental tax revenue collected by the Quebec government[14], the economic impact of the activities of Investissement Québec and its subsidiary, IQ Immigrants Investisseurs inc., is presented in this section for the

- *projects* segment, representing the value of the establishment of assets for projects approved during the 2003-2004 fiscal year, mainly in the construction, machinery manufacturing and production equipment sectors;
- *portfolio* segment, which corresponds to the value of the annual economic activity generated by the Corporation's clients that have obtained financing since 1988.

Value of Input

The evaluation of the economic impact of the projects segment is based on the projects financed during the 2003-2004 fiscal year. It concerns 54% of the financing operations granted, since financing offers refused as at March 31, 2004 and financing of export sales are excluded from this evaluation.

The evaluation of the Corporation's portfolio reflects the overall activity of companies financed between 1988 and 2004 and whose file is still active and administered by the Corporation. Companies used in the evaluation are those whose financial statements[15] were available at the time of the evaluation. Consequently, this year's analysis concerns 83% of the companies in the Corporation's portfolio.

14 The evaluation method is presented in Appendix 6.
15 Companies whose fiscal year ended between July 1, 2002 and June 30, 2003.

Value of Input[1], 2003-2004

Program or Program Segment	Projects		Portfolio		
	Simulated Value ($M)	Proportion of Simulated Value/ Authorized Value	Sales ($M)	Financial Support	
				Total ($M)	Sample ($M)
Complementary financing					
SMB Financial					
Production and alliance					
Investment	147.3	100%	2,243.1	220.1	182.4
Consolidation	10.2	82%	277.4	23.4	20.0
Tourism	4.9	68%	59.2	19.4	16.0
Research and development	342.5	83%	386.8	62.8	58.7
Exports	62.6	80%	1,714.6	126.5	115.5
Working capital					
Growth	4.3	100%	211.2	9.2	9.2
Ad hoc 1	0	0	73.2	2.5	2.4
Ad hoc 3	4.7	82%	717.0	55.5	50.9
Recovery	1.6	77%	711.8	9.2	8.8
Experimentation measure	14.3	100%	20.0	10.4	8.3
Specific programs					
Group entrepreneurship	33.4	90%	970.7	114.8	111.0
Capitalization of social economy enterprises	30.8	93%	370.8	90.8	83.5
SMB Spark	24.7	98%	137.7	28.8	22.3
Recyc-Québec	0	0	2.7	0.5	0.5
Economic development tools					
Biolevier	107.1	100%	7.4	76.0	76.0
FAIRE[2]	1,426.6	100%	15,085.1	1,099.0	962.4
Government mandates	0	0	3,082.0	856.9	774.7
Immigrant Investor	470.7	100%	3,248.4	97.8	79.6
Total[3]	**2,685.7**	**54%**	**25,665.2**	**2,903.6**	**2,582.2**

(1) Projects and sales related to the activities of companies that benefited from the Immigrant Investor Program were included in the economic impact evaluation since they have an effect on Québec's economy.
(2) Including government mandates financed with funds from the FAIRE program.
(3) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns of this table do not correspond to the registered total.

Jobs

For the *projects* segment, companies that benefited from the FAIRE program (7,333 jobs), the research and development segment (5,673) of the SMB Financial program as well as the Immigrant Investor Program (3,828) hired the largest number of workers to implement their projects.

As for the *portfolio* segment, apart from the FAIRE program (132,604 jobs), the Immigrant Investor Program (34,871) as well as the Investment (25,366) and Exports (21,348) segments of the SMB Financial program had the greatest impact on employment in Québec.

Jobs [1] by Program or Program Segment, 2003-2004

	Related to Projects			Related to Portfolio		
Program or Program Segment	Direct	Indirect	Total	Direct	Indirect	Total
Complementary financing						
SMB Financial						
Production and alliance						
Investment	539	468	1,007	17,152	8,214	25,366
Consolidation	73	54	127	2,776	845	3,621
Tourism	39	22	61	635	241	876
Research and development	4,232	1,441	5,673	3,729	1,337	5,066
Exports	765	252	1,017	14,559	6,789	21,348
Working capital						
Growth	35	14	49	1,226	556	1,782
Ad hoc 1	0	0	0	449	222	671
Ad hoc 3	35	13	48	4,401	3,179	7,580
Recovery	12	4	16	8,607	2,551	11,158
Experimentation measure	134	56	190	145	60	205
Specific programs						
Group entrepreneurship	255	111	366	12,558	3,966	16,524
Capitalization of social economy enterprises	275	120	395	12,163	1,285	13,448
SMB Spark	156	76	232	1,337	521	1,858
Recyc-Québec	0	0	0	11	8	19
Economic development tools						
Biolevier	1,183	437	1,620	143	30	173
Government mandates	0	0	0	10,573	7,897	18,470
FAIRE [2]	3,670	3,663	7,333	85,267	47,337	132,604
Immigrant Investor	2,263	1,565	3,828	21,668	13,203	34,871
Total [3]	**13,666**	**8,296**	**21,962**	**167,881**	**84,605**	**252,486**

Source: Investissement Québec and Institut de la statistique du Québec.
(1) Worldwide, in person-years, required for the realization of sales by client companies and their suppliers.
(2) Including government mandates financed with funds from the FAIRE program.
(3) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns of this table do not correspond to the aggregated data.

Added Value

A company produces added value when it establishes assets to carry out its projects or processes, raw materials, goods or components with Québec content. Added value is also calculated based on the sales of the company and its suppliers.

For the *projects* segment, the FAIRE program continues to dominate, with $503 million in added value, followed by the Research and development segment of the SMB Financial program, with an estimated added value of $269 million.

The FAIRE program also stands out in the *portfolio* segment, with added value of $9.2 billion.

Added Value by Program or Program Segment, 2003-2004

Program or Program Segment	Related to Projects ($M)	Related to Portfolio ($M)	Portfolio Productivity (Added Value Per Job) ($)
Complementary financing			
SMB Financial			
Production and alliance			
Investment	64.2	1,415.1	55,789
Consolidation	7.1	165.9	45,827
Tourism	3.4	47.2	53,913
Research and development	269.3	261.6	51,635
Exports	51.6	1,120.9	52,508
Working capital			
Growth	2.7	130.9	73,476
Ad hoc 1	0	40.1	59,779
Ad hoc 3	2.9	448.2	59,131
Recovery	1.4	461.0	41,320
Experimentation measure	10.2	13.1	63,874
Specific programs			
Group entrepreneurship	22.4	694.2	42,012
Capitalization of social economy enterprises	22.1	331.5	24,654
Déclic PME	12.1	93.4	50,280
Recyc-Québec	0	1.5	82,186
Economic development tools			
Biolevier	80.6	5.8	33,901
FAIRE	502.9	9,170.5	69,157
Government mandates	0	1,732.9	93,822
Immigrant investor	215.1	2,054.7	58,924
Total [2]	**1,268.0**	**15,879.2**	**62,891**

Source: Investissement Québec and Institut de la statistique du Québec.
(1) Including government mandates financed with funds from the FAIRE program.
(2) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns of this table do not correspond to the subtotal lines.

Québec Government Revenue

As for the impact on tax and incidental tax revenue, the FAIRE program ranks first ($1,237 M), followed by the Immigrant Investor Program ($305 M) and the Investment segment ($199 M) of the SMB Financial program.

Québec Government Revenue by Program or Program Segment, 2003-2004

	Tax Revenue ($M)		Incidental Tax Revenue ($M)		Total ($M)
Program or Program Segment	Related to Projects	Related to Portfolio	Related to Projects	Related to Portfolio	
Complementary financing					
SMB Financial					
Production and alliance					
Investment	4.2	80.5	5.6	109.1	199.4
Consolidation	0.5	9.8	0.5	12.6	23.4
Tourism	0.2	3.1	0.4	3.6	7.3
Research and development	18.1	16.8	20.9	20.0	75.8
Exports	3.0	63.8	3.4	86.2	156.4
Working capital					
Growth	0.2	6.8	0.2	8.8	16.0
Ad hoc 1	0	2.2	0	2.9	5.1
Ad hoc 3	0.2	24.2	0.2	33.7	58.3
Recovery	0.1	19.9	0.1	34.9	55.0
Experimentation measure	0.6	0.8	0.6	0.9	2.9
Specific programs					
Group entrepreneurship	1.5	42.9	1.9	57.1	103.4
Capitalization of social economy enterprises	1.9	11.6	2.3	19.8	35.6
SMB Spark	0.8	5.4	1.0	7.6	14.8
Recyc-Québec	0	0.1	0	0.1	0.2
Economic development tools					
Biolevier	5.3	0.4	6.3	0.5	12.5
Government mandates	0	98.4	0	94.4	192.8
FAIRE	33.4	526.6	40.7	636.7	1,237.4
Immigrant Investor	15.1	111.9	22.8	155.3	305.1
Total [2]	**85.1**	**900.6**	**106.9**	**1,109.3**	**2,201.9**

Sources: Investissement Québec and Institut de la statistique du Québec.
(1) Including government mandates financed with funds from the FAIRE program.
(2) The same company can benefit from more than one financing operation and hence be accounted for in more than one program or program segment. As a result, the sums of certain columns of this table do not correspond to the registered total.

Impact on Québec Economy

Investissement Québec finances projects that could be implemented outside Québec or projects that exceed the risk threshold of traditional lenders.

For this reason, the Corporation's contribution is far from negligible for the Québec economy since it promotes economic growth. In fact, the companies that it supports will help create 7,683 new full-time jobs in 2003-2004. This number corresponds to 13% of net job creation in the economy in 2003[16]. Moreover, the $5 billion of investment projects financed by Investissement Québec represent 23% of the investments[17] carried out in Québec in 2003[18].

For companies that could invest outside Québec, the Corporation has developed precise economic indicators based on factors that affect location decisions, including proximity to the company's market and origin of shareholders. During the fiscal year, 48% of companies had considered relocating to at least one site outside Québec and 64% of projects were proposed by companies under foreign control. Companies that confirm having considered a site other than Québec export an average of 87% of their production compared with the general average of 76%. It should be noted that these companies are regularly courted by various economic development agencies around the world, which further increases the probability of their projects being implemented outside Québec.

These economic indicators were used to support the financing operations authorized under the FAIRE program. Companies that obtained financing under this program in 2003-2004 represent current export sales[19] estimated at $125 million out of a total of $141 million (89%). Furthermore, the biggest exporters[20] alone account for more than 85% of current jobs. In reality, the production of goods destined for export constitutes an importation of jobs, hence a decrease in unemployment and a net gain for the Québec economy.

Moreover, the Québec economy posted stronger growth than that of Ontario during the past year. In fact, the Ontario GDP rose by 1.3% while that of Québec increased by 1.6%.

16 Source: Institut de la statistique du Québec (May 18, 2004).
17 Non-residential corporate investments.
18 Source: Institut de la statistique du Québec (May 14 and 18, 2004).
19 This data includes only export sales of companies already established in Québec, for the year preceding the beginning of the investment project. Current sales are therefore a conservative estimate of future export sales once the projects are completed.
20 A company is considered a big exporter if its sales outside Québec are greater than or equal to 70% of its total sales.

SECTION

4 Management

Corporate Governance and Organizational Structure 42

Boards of Directors 42

Organizational Charts 44

Committees 45

Human Resources 46

Workforce 46

46

46

47

47

47

48

SECTION

Management 4

Corporate Governance and Organizational Structure 42

Boards of Directors 42

Organizational Chart 44

Committees 45

Human Resources 46

Workforce 46

Training and Development 46

[illegible] 46

[illegible] 47

[illegible] 47

[illegible] Agreement of Technical [illegible] 47

[illegible] Personnel

[illegible] Instruments 48

[illegible] 48

[illegible]

[illegible]

Manageme[illegible]

[illegible]

[illegible]

Corporate Governance and Organizational Structure

Boards of Directors

Investissement Québec

Made up of nine members appointed by the government, including the President and Chief Executive Officer of the Corporation, Investissement Québec's Board of Directors includes representatives from the business community, cooperatives, unions and the government. Its role is to ensure that Investissement Québec is properly managed, in the best interest of its clients, personnel, partners and the government. In this effort, it relies on the principles of sound management and corporate governance, with the help of tools designed in cooperation with Management, including:

- the three-year business plan, which sets out orientations and general objectives;
- the action plan, which contains the Corporation's annual goals and strategies;
- the communication policy;
- periodic operating reports as well as the financial statements showing the results in relation to established goals;
- the annual report, with which the Corporation fulfills its obligation of accountability and measures its performance.

In performing its duties, the Board is assisted by an Audit and Human Resources Committee that monitors the quality of financial information, internal controls and human resources management. In addition, two ethics committees, whose members are appointed by the Board, are responsible for examining all matters related to the interpretation and application of the Code of Ethics for employees of Investissement Québec and its subsidiaries and the Code of Ethics of the Board of Directors of Investissement Québec, and to report to the Board.

The Board of Directors establishes, with the help of Management, the governance principles between Investissement Québec and its subsidiaries, primarily IQ Immigrants Investisseurs inc.

IQ Immigrants Investisseurs inc.

Made up of representatives of Investissement Québec, the Ministère des Relations avec les citoyens et de l'Immigration and the Ministère des Finances, the Board of Directors of IQ Immigrants Investisseurs inc. ensures that the business of this subsidiary is properly managed. The mission of IQ Immigrants Investisseurs inc. is to receive and manage capital from immigrant investors, and to administer a financial assistance program using investment income, in partnership with financial intermediaries.

Members of the Board of Directors of Investissement Québec

Léopold Beaulieu
President and Chief Executive Officer, Fondaction, le Fonds de développement de la Confédération des Syndicats nationaux pour la coopération et l'emploi
Chairman of the Advisory Committee on the Social Economy
Chairman of the Audit and Human Resources Committee

Éric Bédard
Senior Partner, Fasken Martineau DuMoulin
Chairman of the Ethics Committee of Employees of Investissement Québec and its Subsidiaries
Member of the Ethics Committee of the Board of Directors of Investissement Québec

Michel Boivin
Deputy Minister, Ministère des Ressources naturelles, de la Faune et des Parcs

Georges Felli
Associate Deputy Minister for the Economy, Ministère du Développement économique et régional et de la Recherche

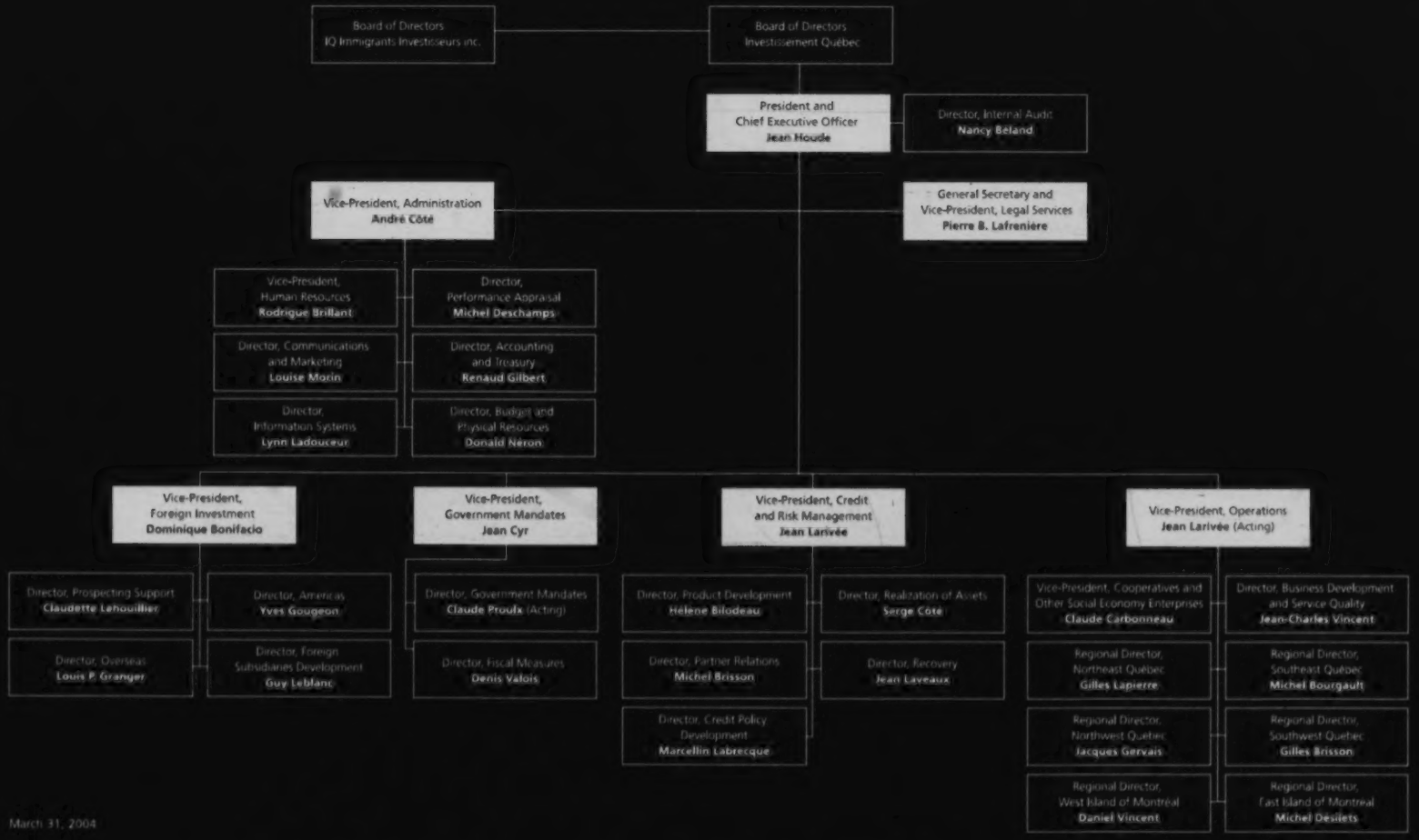
Jean Houde
President and Chief Executive Officer of Investissement Québec
Chairman of the Board of Directors of Investissement Québec
Chairman of the Ethics Committee of the Board of Directors of Investissement Québec
Member of the Ethics Committee of Employees of Investissement Québec and its Subsidiaries

Marcel Leblanc
Deputy Minister, Ministère de l'Agriculture, des Pêcheries et de l'Alimentation

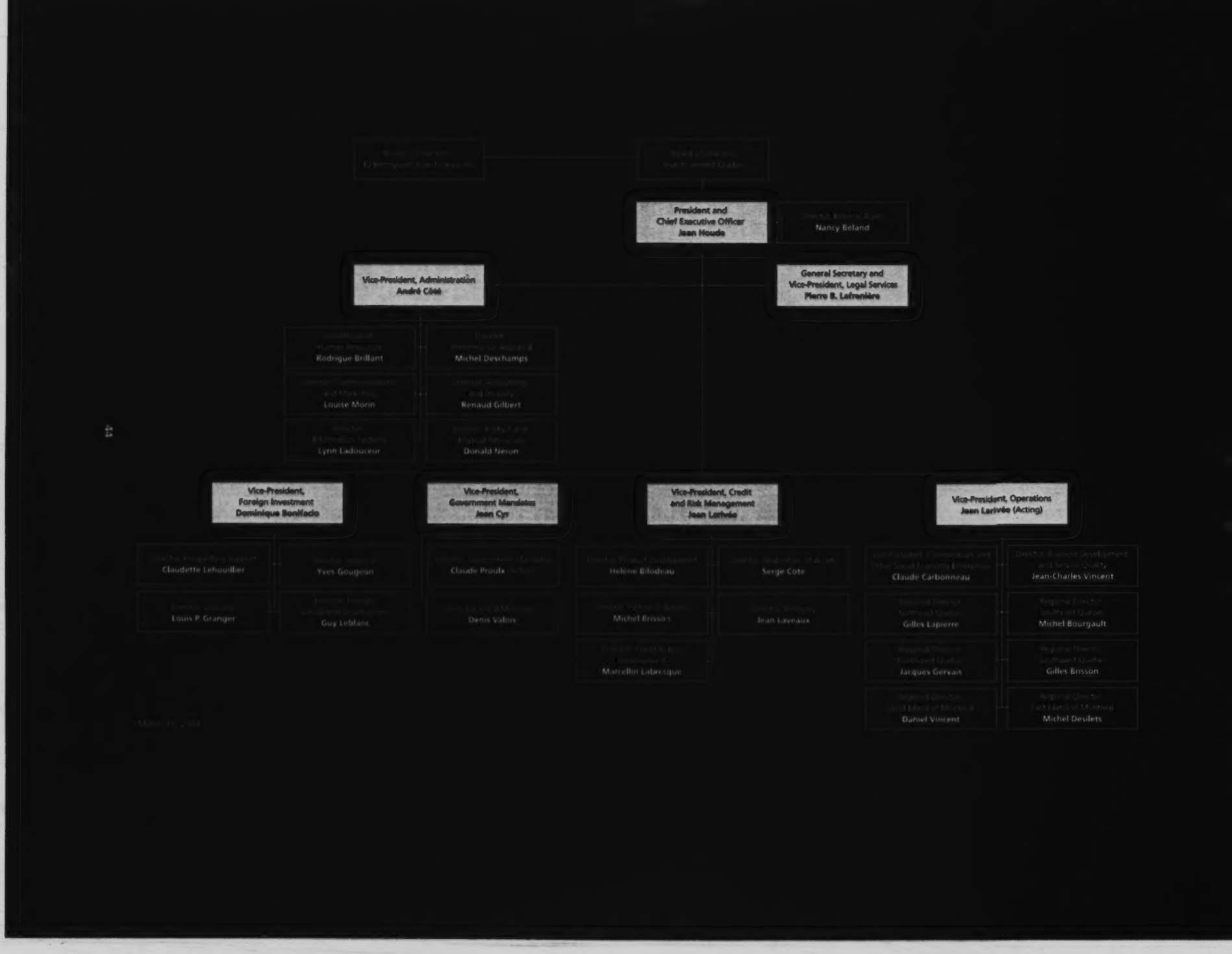
André Monette
President, Gestion André Monette inc.
Member of the Audit and Human Resources Committee
Member of the Ethics Committee of the Board of Directors of Investissement Québec

René Roy
General Secretary, Fédération des travailleurs et travailleuses du Québec (FTQ)
Secretary of the Board of Directors of the Fonds de solidarité FTQ
Member of the Audit and Human Resources Committee

Rosemonde Sayegh-Mandeville
President and Chief Scientific Officer, Biophagepharma



March 31, 2004


President and Chief Executive Officer
Jean Houde
Nancy Beland
Vice-President, Administration
André Côté
General Secretary and Vice-President, Legal Services
Pierre B. Lafrenière
Rodrigue Brillant
Michel Deschamps
Louise Morin
Renaud Gilbert
Lynn Ladouceur
Donald Neron
Vice-President, Foreign Investment
Dominique Bonifacio
Vice-President, Government Mandates
Jean Cyr
Vice-President, Credit and Risk Management
Jean Lavoie
Vice-President, Operations
Jean Lavoie (Acting)
Claudette Lehouillier
Yves Gougeon
Claude Proulx
Helene Bilodeau
Serge Cote
Claude Carbonneau
Jean-Charles Vincent
Louis P. Granger
Guy Leblanc
Denis Valois
Michel Brisson
Jean Laveaux
Gilles Lapierre
Michel Bourgault
Jacques Gervais
Gilles Brisson
Marcellin Labrecque
Daniel Vincent
Michel Desilets

Committees

Ethics Committee of Employees of Investissement Québec and its Subsidiaries

This committee is made up of four members appointed by the Board of Directors of Investissement Québec: Éric Bédard, Chairman of the Committee and director of Investissement Québec, Jean Houde, President and Chief Executive Officer of Investissement Québec, André Côté, Vice-President, Administration, and Pierre B. Lafrenière, General Secretary and Vice-President, Legal Services.

The committee held a meeting during the current fiscal year; the committee members did not detect any ethics problems during this period. The ethics code for employees was published in the Corporation's 2002-2003 annual report, and no amendments have been made since.

Ethics Committee of the Board of Directors of Investissement Québec

Chaired by Jean Houde, President and Chief Executive Officer of Investissement Québec, this committee comprises three members designated by the Corporation's Board of Directors. Apart from Mr. Houde, the other members of the Committee are André Monette, director of Investissement Québec, and Éric Bédard, director of Investissement Québec.

Management Committee

The Management Committee is made up of six members: Jean Houde, President and Chief Executive Officer of Investissement Québec, André Côté, Vice-President, Administration, Pierre B. Lafrenière, General Secretary and Vice-President, Legal Services, Jean Larivée, Vice-President, Credit and Risk Management and Acting Vice-President, Operations, Dominique Bonifacio, Vice-President, Foreign Investment, and Jean Cyr, Vice-President, Government Mandates.

Credit Committee

During the session of March 23, 2004, the Board of Directors created a Credit Committee whose mandate began on April 1, 2004.

Human Resources

Workforce

During the year, the Corporation's workforce went from 378 to 367 persons, a decline of 3%. More than half of this decrease can be attributed to retirements. Investissement Québec also took in eight university-level interns.

Changes in Workforce[1]

Job Category	March 31, 2004	March 31, 2003
Managers	35	36
Professionals	181	189
Jurists	10	8
Technicians	60	59
Clerical staff	81	86
Total	**367**	**378**

(1) Includes only regular employees.

Training and Development

The Corporation instituted a skills development plan for each of its employees based on the following seven elements: expertise, management, academic training, foreign languages, information technology and office automation, personal development and corporate culture. The Corporation devoted 3.4% of its payroll to personnel training and development, compared with 4.3% last year. This decline can be explained mainly by the stability of the workforce which, unlike in previous years, did not increase. In addition, the internal training offered was limited due to the absence of new financing products. Investissement Québec is pursuing its efforts in the area of personnel development with an aim to improving its client service and is planning several innovative projects for the future.

Work Attendance

In 2003-2004, the number of absences for reasons such as illness and personal or family obligations was 7.2 days per employee, representing an absenteeism rate of 2.8%. This rate is stable compared with that of the previous fiscal year.

It should be noted that Investissement Québec's absenteeism rate is 32% lower than the average absenteeism rate in Québec (2003).

Work Attendance

	Investissement Québec		Québec[3]
	2003-2004	2002-2003	2003
Days lost per worker	7.2	6.5	10.6
Rate of absenteeism	2.8%	2.5%	4.1%

(1) In working days. For comparison purposes, data has been adjusted as the figure used for the absenteeism data for 2002-2003 had been rounded.
(2) The absenteeism rate is obtained by dividing the number of days lost per worker during the year by 250 days.
(3) Source: Statistics Canada, Catalogue 71-584-XPB, data for 2003.

Turnover Rate
The Corporation's turnover rate stood at 6.6% or 25 departures in 2003-2004, compared with 7% or 26 departures in 2002-2003.

Performance Appraisal Method
The performance appraisal method requires all the Corporation's employees, regardless of their position, to undergo a periodic evaluation based on performance goals. This method also calls for an incentive compensation policy, which stipulates that all salary increases be based on these goals being achieved or exceeded.

Collective Agreement of Technical and Administrative Personnel
The representatives of Investissement Québec and the Syndicat de la fonction publique du Québec signed a five-year collective agreement. This collective agreement covers technical and administrative personnel and ends on March 31, 2007.

Management Instruments

Three-Year Business Plan

The Corporation completed its 2002-2005 three-year business plan, which was approved by the government in November 2002. As at March 31, 2004, its 2004-2007 business plan was in the process of being approved. This plan sets out the strategies, means of action and performance objectives as well as the government's contribution to the financing of the Corporation's activities.

Action Plan

To implement its three-year business plan, the Corporation establishes an action plan each year indicating its recurring activities and development activities selected based on its strategies. The 2003-2004 action plan was communicated to the Corporation's employees by the managers and the 2004-2005 action plan was in the process of being developed as at March 31, 2004.

Monitoring of Activities

The Corporation uses different tools to monitor its activities, results and financial commitments and to support its decision-making process, including an operating report, which shows the objectives set at the beginning of the year in terms of investment, job creation and promotion of Québec and the extent to which these are achieved.

Each quarter, the Management Committee receives a full version of the operating report presenting detailed data on all programs administered by the Corporation as well as on client satisfaction, time required to process files, promotion and communication activities, management of human, budgetary and physical resources, and quarterly financial results.

Other monitoring tools are also used, such as monthly reports for managers of financing files. These managers also have interactive management indicators that allow them to monitor their files in detail and on a weekly basis. The Management Committee also uses an operating report to monitor its actions.

Finally, the staff members can consult the operating report on the Corporation's Intranet site.

Management of Financial and Operational Risks

The Corporation uses several instruments to manage the risks it faces due to the nature of its activities, including credit, market, liquidity and operational risks.

Credit Risk

For the Corporation, credit risk is mainly associated with losses it may incur due to the credit quality of its clients. In this regard, it has methods to help it make enlightened decisions when analyzing and authorizing a financing operation. In addition, it systematically monitors financing operations by, among other things, obtaining and analyzing the annual financial statements of companies, producing a yearly report on progress of these companies, reviewing the risk category on a quarterly basis in order to determine the provision for losses and, in the case of doubtful accounts, updating the value of securities. Moreover, the Corporation recently updated its company classification system, by adding two risk categories. This addition improves the initial evaluation of the risk, allows for better matching of compensation and risk level, facilitates the tracking of changes in financing operations and makes it easier to monitor companies in difficulty.

Market Risk

Market risk, according to the Corporation's activities, stems basically from interest rate fluctuations. In this regard, the Corporation seeks the best possible matching of the maturity rates of its assets and liabilities. The largest portion of its weekly or monthly variable-rate loans is financed by borrowings with a duration of about one month. The Corporation completes the matching with derivative products. This method of operation is supported by an interest rate risk management policy.

Liquidity Risk

Liquidity risk is associated with the difficulties that the Corporation may experience in obtaining capital at a reasonable cost due to market volatility. The management of this risk is supported by an overall financing policy. The Corporation ensures that it has diverse sources of financing as well as a borrowing program for both short-term and long-term loans from the Québec government's Fonds de financement. In addition, short-term borrowing agreements have been concluded with financial institutions. The amounts authorized under these programs and agreements are sufficient to cover all contingencies.

Operational Risk

This refers to the risk that the Corporation may incur a loss due to the inadequacy or failure of systems and processes or to human error. The Corporation uses several methods to manage this risk, including establishing and monitoring procedures concerning information processes, financing operations and human resources management. More specifically, these measures affect:

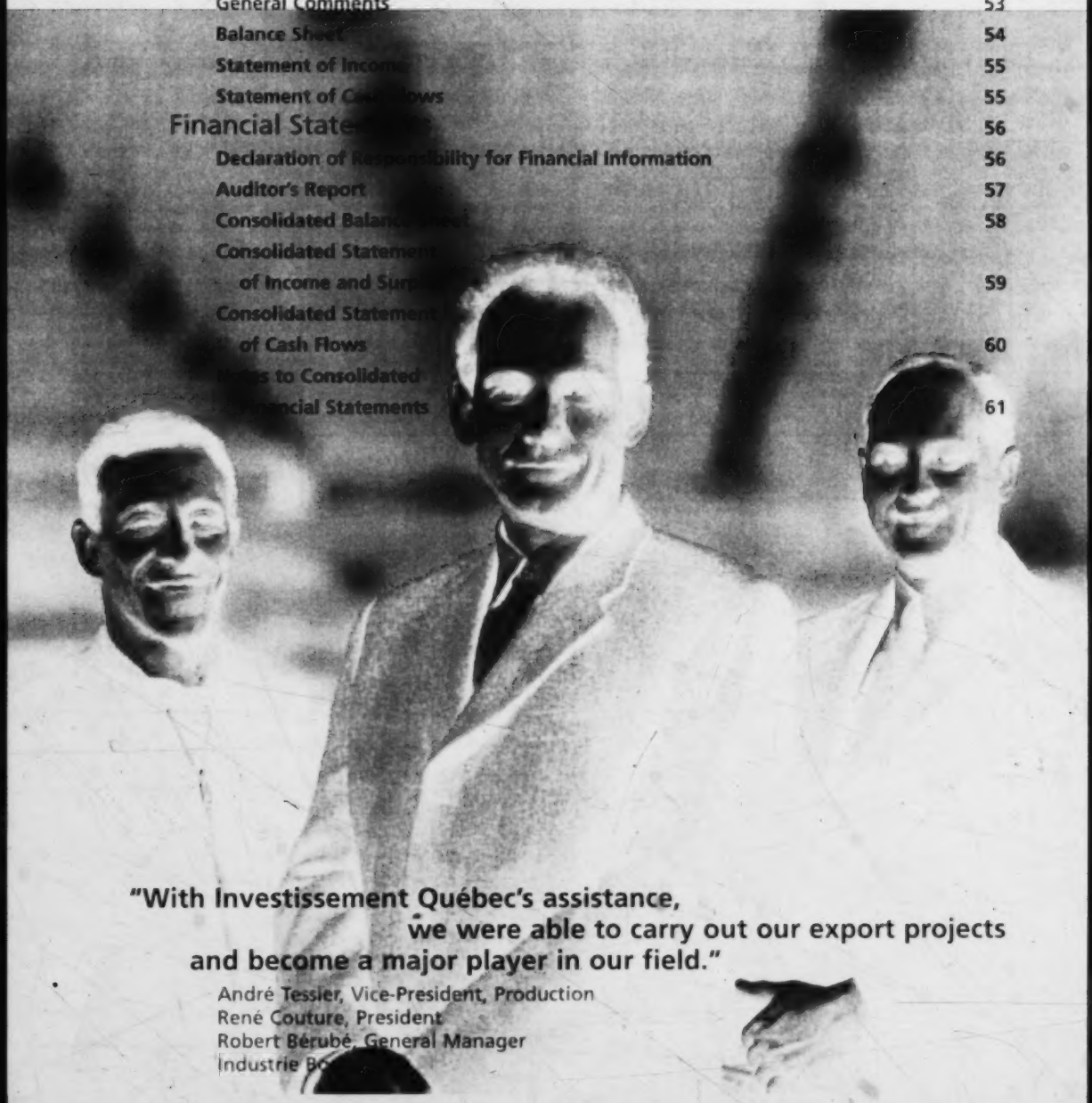
- delegation of power and separation of functions;
- rapid production of reliable management information, such as operating reports;
- physical and logical security of systems and computer data;
- process of planning the resumption of activities;
- competence and employee training;
- insurance coverage and appropriate protection of physical assets and offices.

SECTION

Financial Information 5

Financial Review by Management 53
- General Comments 53
- Balance Sheet 54
- Statement of Income 55
- Statement of Cash Flows 55

Financial Statements 56
- Declaration of Responsibility for Financial Information 56
- Auditor's Report 57
- Consolidated Balance Sheet 58
- Consolidated Statement of Income and Surplus 59
- Consolidated Statement of Cash Flows 60
- Notes to Consolidated Financial Statements 61



"With Investissement Québec's assistance, we were able to carry out our export projects and become a major player in our field."

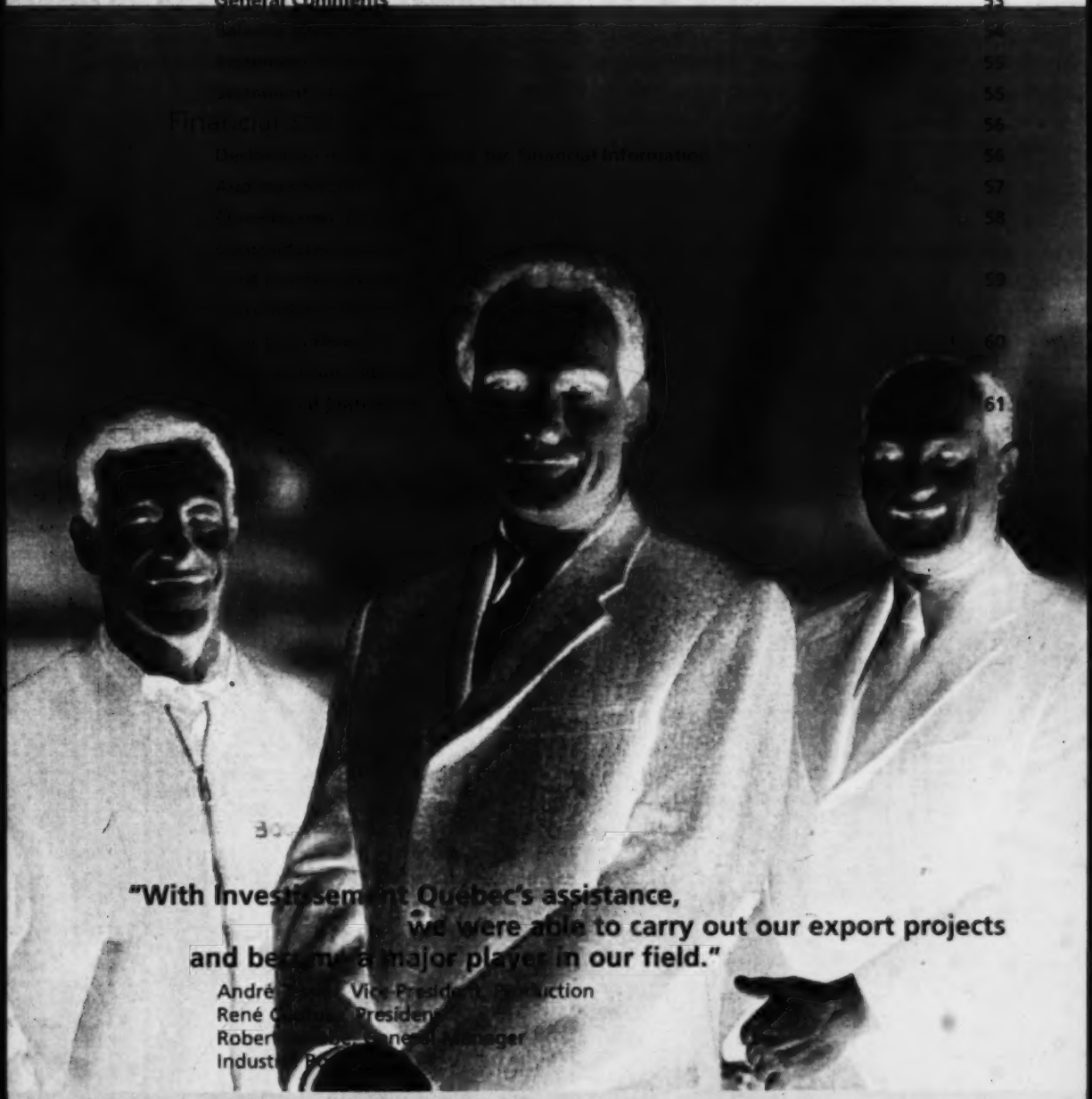
André Tessier, Vice-President, Production
René Couture, President
Robert Bérubé, General Manager
Industrie B[illegible]

SECTION

Financial Information 5

Financial Review by Management 53

General Comments 53



"With Investissement Québec's assistance,
we were able to carry out our export projects
and become a major player in our field."

André [illegible], Vice-President, Production
René [illegible], President
Robert [illegible], General Manager
Industrie [illegible]

Financial Review by Management

General Comments

The Corporation's consolidated financial statements include the financial statements of its wholly owned subsidiaries, namely, La Financière du Québec, IQ Immigrants Investisseurs inc., 9037-6179 Québec inc., 9071-2076 Québec inc. and 9109-3294 Québec inc. These statements are composed of the consolidated balance sheet, the consolidated statements of income and surplus, the consolidated statement of cash flows, and the notes to the consolidated financial statements.

The net value of the Corporation's financing operations portfolio continued to grow during the fiscal year ended March 31, 2004. The portfolio increased by 33%, from $1.8 billion as at March 31, 2003 to $2.4 billion as at March 31, 2004.

This portfolio is made up of loans, shares, units and guarantees. Loans, shares and units are posted on the asset side of the Corporation's balance sheet, while guarantees are left out of the balance sheet, because they are neither an asset nor a liability. However, they are presented as off-balance sheet financial instruments and represent the sums that the Corporation may be called upon to pay in case of payment default by companies.

The financing operations included in the Corporation's portfolio fall into three major categories: operations for which losses are assumed by the Québec government, operations for which losses are assumed equally by the government and the Corporation and operations for which losses are assumed entirely by the Corporation. The portion of the portfolio for which losses are assumed by the government and the portion for which losses are assumed by the Corporation are presented separately in the notes to the financial statements.

Balance Sheet

The Corporation's total assets as at March 31, 2004 stood at $2.85 billion, up 57% compared with the total assets as at March 31, 2003. This improvement is mainly due to the substantial increase in the investment amounts of IQ Immigrants Investisseurs inc., which rose from $438.0 million as at March 31, 2003 to $1.01 billion as at March 31, 2004, and a significant increase in shares due to a $260 million investment in a company.

Moreover, the loan guarantee balance rose substantially, from $883.8 million for the previous fiscal year to $1.26 billion.

The accumulated provision for losses reached $646.1 million as at March 31, 2004. Expressed as a percentage of the balance of the Corporation's financing operations portfolio, it has been relatively stable over the past five years, as shown in the table below:

Accumulated Provision for Losses as % of Portfolio

The debt/equity ratio, representing the ratio of the Corporation's total short- and long-term debt over equity, progressed as follows:

Debt/Equity Ratio

Moreover, the ratio of equity over net value of the financing operations portfolio for which losses are assumed by the Corporation went from 0.65 as at March 31, 2003 to 0.85 as at March 31, 2004, a reflection of the Corporation's sound capitalization with respect to the risk for which it assumes the losses.

Statement of Income

The Corporation posted net income of $41.3 million during the year ended March 31, 2004, compared with $22.6 million for the previous year. This increase is mainly attributable to the rise in net interest income stemming from major loan disbursements, an increase in interest on IQ Immigrants Investisseurs inc. investments and a considerable decrease in the provision for losses expense related to financing operations for which losses are assumed by the Corporation. For the same reasons, net income greatly exceeded the Corporation's 2002-2005 business plan forecasts.

Moreover, total expense for the provision for losses stood at $273 million, representing 10.3% of the average financing operations portfolio, compared with $141.3 million, representing 6.9% of the average financing operations portfolio for 2002-2003. The expense for the provision for losses assumed by the Corporation amounted to $7.6 million (2.4% of the average portfolio), compared with $15.8 million (5.4% of the average portfolio) in 2002-2003. The Corporation had anticipated an expense of $22.8 million for this item in its business plan. However, the financial situation of client companies was better than expected.

Operating and administrative expenses totalled $40.6 million. Expressed as a percentage of the average balance of the financing operations portfolio, they progressed as follows:

Operating and Administrative Expenses as % of Average Portfolio

The Corporation succeeded in maintaining the Québec government's contribution for operating and administrative expenses. Thus, the increase in its expenses was financed with its operating income, which boosted the percentage of operating and administrative expenses that it finances from 2% in 1998-1999 to 35% in 2003-2004, as shown in the following table:

Self-financing Rate for Operating and Administrative Expenses

Statement of Cash Flows

Cash flows from the Corporation's operations stood at $15.7 million. Cash disbursements from investment activities were $956 million for the current year, as a result of the increase in the investment, share and loan balance. For the same reasons, cash flows from financing activities totalled $967 million.

Financial Statements

Declaration of Responsibility for Financial Information

The preparation and presentation of the consolidated financial statements of Investissement Québec and other information disclosed in this annual report are the responsibility of Management.

The consolidated financial statements have been drawn up in accordance with Canadian generally accepted accounting principles.

The financial information disclosed in the annual report is consistent with that contained in the financial statements.

The Corporation's accounting system as well as its internal controls and procedures are designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The Board of Directors, which is responsible for monitoring the manner in which management fulfills its responsibilities regarding financial information, approved the financial statements. The Board is assisted in carrying out its mandate by the Audit and Human Resources Committee. This committee meets with Management and the auditor, reviews the financial statements, and recommends their approval to the Board. The Audit and Human Resources Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations, particularly the *Financial Administration Act*.

Jean Houde
President and Chief Executive Officer

André Côté
Vice-President, Administration

Auditor's Report

To the National Assembly,

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2004 and the consolidated statements of income, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Doris Paradis

Doris Paradis, FCA
Acting Auditor General of Québec

Québec City, May 31, 2004

Consolidated Balance Sheet

As at March 31 (in thousands of dollars)

Assets	2004	2003
Cash	2,469	–
Temporary investments (Note 3)	28,438	73,625
Investments (Note 4)	1,014,928	438,024
Loans, less accumulated provision for losses (Notes 5 and 9)	801,978	825,344
Shares, less accumulated provision for losses (Notes 6 and 9)	342,722	65,873
Units, less accumulated provision for losses (Notes 7 and 9)	21,276	21,191
Accumulated provision for losses recoverable from the Québec government (Note 9)	562,751	345,328
Fixed assets (Note 10)	3,121	4,470
Other assets (Note 11)	71,733	46,812
Total assets	2,849,416	1,820,667

Liabilities and Equity		
Liabilities		
Bank overdraft	–	899
Short-term debt (Note 12)	370,900	399,600
Long-term debt (Note 13)	2,003,146	1,004,351
Due and accrued interest on loans from the Fonds de financement du gouvernement du Québec	12,267	5,369
Accumulated provision for losses on guarantees (Notes 8 and 9)	219,657	205,044
Other liabilities (Note 14)	20,170	23,446
	2,626,140	1,638,709
Equity		
Initial equity	32,944	32,944
Surplus	190,332	149,014
	223,276	181,958
Total liabilities and equity	2,849,416	1,820,667

Guarantees, less accumulated provision for losses (Notes 8 and 9)	1,260,404	883,754

Commitments (Note 25)

Contingencies (Note 28)

Subsequent Event (Note 29)

The notes are an integral part of the financial statements.

For the Board of Directors,

Jean Houde
Chairman of the Board

Léopold Beaulieu
Director

Consolidated Statement of Income and Surplus

For the fiscal year ended March 31 (in thousands of dollars)

	2004	2003
Interest income and interest contribution from the Québec government (Note 15)	98,699	63,903
Risk premiums		
Stock options	4,150	5,288
Other	3,055	2,412
Guarantee fees	12,525	11,360
Commitment fees	7,666	7,722
Gain on disposal of shares	508	222
Gain on disposal of investments	504	–
Share of earnings distributed by a limited partnership	417	266
Other income	2,605	1,113
	130,129	92,286
Interest charges (Note 16)	(36,951)	(26,119)
Fees to financial intermediaries	(17,747)	(10,435)
Net income before provision for losses and the following items	75,431	55,732
Provision for losses (Note 9)	(273,023)	(141,277)
Provision for losses recoverable from the Québec government (Note 9)	265,415	125,450
Net income before the following items	67,823	39,905
Financial contributions (Note 17)	(56,137)	(79,634)
Financial contributions assumed by the Québec government (Note 17)	45,382	77,271
Operating and administrative expenses (Note 18)	(40,589)	(41,523)
Administration fees – Québec government	26,811	27,585
Other expenses (Note 19)	(1,972)	(960)
Net income	41,318	22,644
Surplus at the beginning	149,014	126,370
Surplus at the end	190,332	149,014

The notes are an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the fiscal year ended March 31 (in thousands of dollars)

	2004	2003
Cash flows from operating activities		
Net income	**41,318**	22,644
Adjustments for		
Amortization of issuance expenses on long-term debt	**460**	199
Amortization of discounts and premiums on long-term debt	**(1,109)**	(994)
Amortization of discounts and premiums on investments	**(30,373)**	(15,112)
Amortization of deferred fees to financial intermediaries	**9,876**	4,275
Gain on disposal of shares	**(508)**	(222)
Gain on disposal of investments	**(504)**	–
Transfer of deferred income	**(192)**	(192)
Provision for losses	**273,023**	141,277
Provision for losses recoverable from the Quebec government	**(265,415)**	(125,450)
Depreciation of fixed assets	**1,921**	2,218
Share of income – Affiliated company, Canadair Quebec Capital S.E.N.C.	**20**	38
	28,517	28,681
Changes in non-cash items related to operating activities (Note 20)	**(12,865)**	(27,217)
	15,652	1,464
Cash flows from investment activities		
Net decrease (increase) of temporary investments with a maturity of over three months following the acquisition date	**69,083**	(69,083)
Acquisition of investments	**(576,571)**	(267,941)
Disposal of investments	**30,524**	
Net increase of loans	**(146,283)**	(195,439)
Net decrease (increase) of shares	**(300,076)**	16,080
Net increase of units	**(236)**	(82)
Acquisition of fixed assets	**(572)**	(910)
Deferred fees to financial intermediaries	**(31,362)**	(24,642)
	(955,493)	(542,017)
Cash flows from financing activities		
Net increase (decrease) of short-term debt	**(28,700)**	44,500
Long-term debt	**1,140,820**	674,089
Repayment of long-term debt	**(140,916)**	(205,982)
Deferred issuance expenses on long-term debt	**(4,099)**	(1,716)
	967,105	510,891
Net increase (decrease) of cash and cash equivalents	**27,264**	(29,662)
Cash and cash equivalents at beginning of year	**3,643**	33,305
Cash and cash equivalents at end of year	**30,907**	3,643
Cash and cash equivalents		
Cash	**2,469**	
Temporary investments with a maturity not exceeding three months	**28,438**	4,542
Bank overdraft	**–**	(899)
	30,907	3,643
Additional information		
Interest paid	**30,156**	30,740

The notes are an integral part of the financial statements

Notes to Consolidated Financial Statements

As at March 31, 2004 (in thousands of dollars unless otherwise indicated)

1. Incorporating Legislation and Nature of Activities

Investissement Québec is a public law legal entity incorporated and governed under the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1), and, as such, is not subject to income taxes.

Investissement Québec's mission is to promote investment growth in Québec, thereby contributing to the economic development of Québec and job creation. It centralizes and consolidates Government action in research, promotion and support for investment. It strives not only to stimulate domestic investment, but also to attract outside investors by promoting Québec as an excellent place for investment. Investissement Québec participates in the growth of businesses by facilitating research and development as well as exports. By lending its support to companies already established here, it works to retain current investment in Québec. It can also offer companies and government departments, agencies and corporations a variety of technical services, particularly in the fields of financial analysis, credit arrangement and portfolio management. Investissement Québec administers the financial assistance programs developed by the government with regard to investment. The Corporation also administers the *Act respecting Québec Business Investment Companies* (R.S.Q., c. S-29.1), and fulfils any mandate assigned to it by the Government under section 28 of its incorporating statute.

The purpose of La Financière du Québec, a wholly owned subsidiary of Investissement Québec, is to use its financing operations to support Québec companies or companies that are setting up operations in Québec, mainly by granting them loans or guaranteeing the financial commitments they make to financial institutions. It also administers the financial assistance programs stemming from the *Act respecting assistance for the development of cooperatives and non-profit legal persons* (R.S.Q., c. A-12.1).

Section 46 of the *Act respecting Investissement Québec and La Financière du Québec* states that the parent company shall establish a business plan, which includes the activities of its subsidiaries, according to the form, content and frequency determined by the Québec government. This plan was approved on November 6, 2002 (decree number 1296-2002) and ends on March 31, 2005. The plan provides that the Québec government contribute to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, according to the terms and conditions of the programs or decrees under which they were set up, by paying it a contribution as interest on certain financing operations for which it refunds losses and by paying it fees.

2. Main Accounting Policies

The consolidated financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles. As such, management is required to make estimates and assumptions that influence the amounts and other information disclosed in the financial statements.

The consolidated financial statements comprise the financial statements of Investissement Québec and those of its wholly owned subsidiaries: La Financière du Québec, IQ Immigrants Investisseurs inc., 9037-6179 Québec inc., 9071-2076 Québec inc. and 9109-3294 Québec inc.

Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, cash, temporary investments maturing no later than three months following their acquisition date, as well as bank overdraft.

Investments

Notes receivable from the Québec government are accounted for at cost and discounts on acquisition of investments are charged to the statement of income according to the real-interest method until maturity.

Investment in an affiliated company is accounted for under the equity method.

Other investments are accounted for at cost and, if necessary, discounts and premiums on acquisition of investments are charged to the statement of income according to the straight-line method until maturity.

Loans, Shares and Units

Loans, including accrued interest receivable, shares and units are recorded at cost. When the credit rating has deteriorated to the extent that there is no reasonable assurance that a loan (principal and interest) will be collected in full, the loan is considered doubtful. The reduction in the accounting value then recognized and any subsequent changes are applied to the provision for losses.

When a loan for which losses are not refunded by the Québec government becomes doubtful and the borrower owes more than three months' interest, the interest ceases to be recognized. The interest received on such loans is recorded as a recovery up to the amount written off or for which a provision has been entered, and is subsequently recorded as interest income.

Foreclosed assets are considered as doubtful loans and are recorded at their fair value at the time of foreclosure. The increase or decrease in the book value is then recognized. Any subsequent decrease is applied to the provision for losses.

The book value of loans for which losses are not refunded by the Québec government, restructured as low-interest loans, interest-free loans or preferred shares, is recorded at the present value of net cash flows receivable pursuant to the new provisions, at the real interest rate inherent in the loan. The decrease in the book value resulting from the restructuring is charged to the provision for losses. The increase in the present value, attributable to the passage of time, is accounted for as interest income.

Common shares stemming from restructured loans for which losses are not refunded by the Québec government are recorded at their book value immediately after the loans have been restructured. The difference between the accounting value of a loan prior to restructuring and the book value of the resulting shares is applied to the provision for losses. Any subsequent decrease in the book value of the shares is also applied to the provision for losses. Any subsequent increase is recognized only upon the sale of the shares, as a gain on the disposal of shares during the current year.

Guarantees

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once they have been approved by the Corporation. Disbursements are then applied to reduce the guarantee balance and the accumulated provision for losses on guarantees.

When the Corporation considers that there is reasonable assurance that a loan will be repaid, these disbursements are recorded as assets in accordance with the accounting policies applicable to loans, shares and units.

Accumulated Provision for Losses

The accumulated provision for losses on loans, shares and units is shown on the Corporation's balance sheet, offset against the value of its assets. The accumulated provision for losses on loan guarantees is shown as a liability on the balance sheet. According to the Corporation, these provisions represent the most accurate estimate possible of the foreseeable amounts for losses on financing operations that are part of its portfolio.

Except for companies that benefit from business start-up and re-start investment programs and special class shares programs, client companies are classified under five risk categories, determined using solvency and credit criteria; this classification is updated regularly.

One of these categories is insolvent clients, while another comprises companies that are likely to become insolvent in the short term. All doubtful loans are found in one of these two categories. The provision for losses on financing operations included in these two categories corresponds to the balance of each operation, less the estimated realizable value of securities, to which a percentage adjustment is applied based on loan collection experience for the companies in these categories. When a company assigned to either category is winding up, has ceased repaying the Corporation and is unlikely to put its finances in order, the related financing operations are written off.

The three other risk categories comprise companies whose financial profile corresponds to that of the Corporation's target clientele. A group provision is calculated for each of these categories by applying a provision rate to the balance of the financing operations. The provision rate for each category is based on a statistical analysis of the number of companies whose category is downgraded and the size of the losses noted or deemed probable over the past three years.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or present specific characteristics are subject to a specific provision for losses analysis, regardless of their risk category.

A global provision is calculated for business start-up and re-start investment programs. This provision corresponds to the amount of authorized guarantees to which a rate based on past experience is applied, less disbursements in respect of loan guarantees under these programs.

Certain loans may be forgiven according to the conditions set out in the loan agreement. The provision for losses on these loans takes into account the insolvency risks mentioned above and the inherent risk in the loan agreement.

Special class shares are non-participating shares, with no dividends and no redemption date. These shares are subject to a specific provision for losses analysis.

Receivable from the Québec Government

The Québec government contributes to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, by paying interest on certain financing operations, and by paying fees to the Corporation. The receivable balance for these contributions appears under the heading "Other Assets".

Fixed Assets

Fixed assets are recorded at cost. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

Software and computer equipment	33 1/3 %
Information systems development	20%
Office furniture	10%
Leasehold improvements	10%

Issuance Expenses, Long-Term Debt Discounts and Premiums

Issuance expenses, long-term debt discounts and premiums are deferred and amortized over the term of the related loan according to the straight-line method. Deferred issuance expenses on long-term debt are included in other assets. Deferred discounts and premiums are presented as a deduction from or addition to the loans with which they are associated.

Land Held for Decontamination Purposes

Land is valued at cost or the net realizable value, whichever is lower. The cost includes expenses related to decontamination and clean-up work.

Deferred Income

The Québec government's contribution for the acquisition of certain fixed assets is deferred and transferred to the statement of income according to the same method and the same rates used for depreciating fixed assets.

Risk Premiums

When approving a financing operation, the Corporation generally requires a risk premium from the client company. The stock option premium is recorded when an agreement is reached with the client concerning the exact amount and date of payment of the premium. The share-in-earnings premium is payable and recorded no later than six months after the end of the company's fiscal year. The lump-sum premium is recorded when due according to the contract.

Gains on the disposal of shares acquired following the exercise of an option are shown under the heading "Risk Premiums – Stock Options" in the Corporation's statement of income.

Financial Contributions

Financial contributions are made up of non-refundable financial contributions and conditional-refund financial contributions.

Financial contributions are charged to the statement of income for the fiscal year in which the Corporation approved the payment. The corresponding contribution from the Québec government for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recorded in the same fiscal year.

Subsequent recoveries of conditional-refund financial contributions are charged to the statement of income for the current fiscal year. The applicable Québec government refund is also recorded in the statement of income for the current fiscal year.

Fees Paid to Financial Intermediaries

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for canvassing immigrant investors, for finding companies to recommend for a non-refundable financial contribution, and for closing immigrant investors' files.

Fees paid for canvassing an immigrant investor and fees paid for finding a company to recommend are accounted for once the company has accepted the financing operation. Fees paid for canvassing an immigrant investor are deferred and charged to the statement of income for the duration of the corresponding investment, namely five years, according to the straight-line depreciation method. Fees for closing an immigrant investor's file are recorded on the date the file is closed.

Financial Derivative Instruments

The Corporation holds financial derivative instruments for the purpose of managing the interest rate risk stemming from positions appearing in the balance sheet. These financial instruments are accounted for at fair value, and the resulting gains or losses are applied to income, as an interest rate adjustment. Unmatured financial instruments are disclosed under "Other Assets" and "Other Liabilities".

Currency Translation

Monetary assets and liabilities and guarantees expressed in foreign currency are translated into Canadian dollars at the rate applicable on the date of the balance sheet. Income and expenses denominated in foreign currency are, for their part, translated into Canadian dollars at the prevailing exchange rate on the transaction date.

Pension Plans

The Corporation contributes to government multi-employer defined-benefit pension plans. However, these contributions are accounted for according to the accounting policies concerning defined contribution plans, since the Corporation's obligations toward these government plans are limited to its contributions as an employer.

The Corporation also instituted an optional supplementary pension plan in order to pay retirement benefits to certain members of senior management, in addition to those paid under the basic pension plan. The cost of the retirement benefits received by these employees is established through actuarial calculations based on the defined-benefit method according to years of service, using management's most probable assumptions regarding the expected return on plan investments, the increase in salaries and the retirement age of employees.

3. Temporary Investments

	2004	2003
Banker's acceptances with a maturity not exceeding three months following the acquisition date, from 2.19% to 2.50%, maturing between April 5 and April 15, 2004	4,592	4,542
Canada Treasury Bills, 2.00%, maturing June 17, 2004	398	–
Mutual funds – Money market securities	23,448	–
Banker's acceptances with a maturity exceeding three months following the acquisition date	–	69,083
	28,438	73,625

4. Investments

	2004	2003
Shares and other equity	23,682	–
Bonds and other debt instruments, from 3.15% to 12.25%, maturing between May 9, 2005 and July 22, 2013, nominal value of $65.8 million	69,636	–
Notes receivable from the Quebec government, from 3.56% to 6.01%, maturing between January 24, 2006 and March 31, 2009, nominal value of $1.1 billion	921,587	437,981
Affiliated company, Canadair Quebec Capital S.E.N.C., valued under the equity accounting method	23	43
	1,014,928	438,024

The amount of investments denominated in US dollars totalled $ 7 million in Canadian dollars as at March 31, 2004

The maturities of the investments, at nominal value, are as follows:	
2005	–
2006	18,665
2007	211,538
2008	349,333
2009	575,292
2010 and beyond	2,939
No maturity	23,705
	1,181,472

5. Loans, Less Accumulated Provision for Losses

			2004	2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total	Total
Loans				
Interest-bearing				
Fixed rate	6,442	101,470	**107,912**	149,163
Variable rate	38,288	267,678	**305,966**	287,019
	44,730	369,148	**413,878**	436,182
Interest-free	149	433,589	**433,738**	469,680
Restructured	1,640	-	**1,640**	4,431
Doubtful	34,073	293,883	**327,956**	120,636
	80,592	1,096,620	**1,177,212**	1,030,929
Accumulated provision for losses				
Interest-bearing loans	(6,083)	(40,605)	**(46,688)**	(63,839)
Interest-free loans	(19)	(29,737)	**(29,756)**	(31,038)
Restructured loans	(539)	-	**(539)**	(3,810)
Doubtful loans	(23,775)	(274,476)	**(298,251)**	(106,898)
	(30,416)	(344,818)	**(375,234)**	(205,585)
	50,176	751,802	**801,978**	825,344

Anticipated cash receipts from loans, according to contractual provisions, are detailed as follows:				
Less than one year	19,461	112,606	**132,067**	107,181
From 1 to 2 years	12,813	86,766	**99,579**	97,475
From 2 to 3 years	12,213	135,432	**147,645**	97,316
From 3 to 4 years	10,403	105,343	**115,746**	141,943
From 4 to 5 years	4,926	94,483	**99,409**	83,605
From 5 to 10 years	20,342	399,287	**419,629**	347,990
From 10 to 20 years	434	162,703	**163,137**	155,419
	80,592	1,096,620	**1,177,212**	1,030,929

(1) Fixed interest rates range between 2.07% and 12.00% as at March 31, 2004 (between 3.07% and 12.00% as at March 31, 2003) and variable interest rates between 5.50% as at March 31, 2004 (4.25% as at March 31, 2003).

6. Shares, Less Accumulated Provision for Losses

			2004	2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total	Total
Shares				
Common	1,222	34,894	**36,116**	13,148
Preferred	1,475	346,813	**348,288**	69,054
Of a special class	–	7,763	**7,763**	8,103
Common shares from restructured loans	725	–	**725**	1,231
Preferred shares from restructured loans	398	–	**398**	1,170
	3,820	389,470	**393,290**	92,706
Accumulated provision for losses				
Common shares	(586)	(13,699)	**(14,285)**	(10,022)
Preferred shares	(777)	(26,863)	**(27,640)**	(7,041)
Special class of shares	–	(7,763)	**(7,763)**	(8,103)
Common shares from restructured loans	(546)	–	**(546)**	(661)
Preferred shares from restructured loans	(334)	–	**(334)**	(1,006)
	(2,243)	(48,325)	**(50,568)**	(26,833)
	1,577	341,145	**342,722**	65,873
The share redemption maturities are detailed as follows:				
Less than one year	58	160	**218**	80
From 1 to 2 years	15	80	**95**	115
From 2 to 3 years	413	80	**493**	163
From 3 to 4 years	15	80	**95**	163
From 4 to 5 years	68	52	**120**	500
From 5 to 10 years	240	17,587	**17,827**	17,153
From 10 to 20 years	–	45,000	**45,000**	45,000
More than 20 years	–	260,000	**260,000**	–
	809	323,039	**323,848**	63,174
No maturity	3,011	66,431	**69,442**	29,532
	3,820	389,470	**393,290**	92,706

The Corporation holds shares issued by public companies. The net book value of these shares as at March 31, 2004 was $9.1 million ($1.9 million as at March 31, 2003). According to stock market quotations as at March 31, 2004, these shares had a value of $14.7 million ($4.9 million as at March 31, 2003).

The Corporation has a put option on the common shares that it holds in a company. The put can be exercised in part (76.8%) as of January 1, 2006 and in whole as of January 1, 2009. The minimum gain related to this put is $8.2 million.

7. Units, Less Accumulated Provision for Losses

			2004	2003
	Losses Not Refunded by the Quebec Government	Losses Refunded by the Quebec Government	**Total**	Total
Units				
Preferred of cooperatives	190	2,770	**2,960**	2,724
Of a limited partnership	–	18,949	**18,949**	18,949
	190	21,719	**21,909**	21,673
Accumulated provision for losses				
Preferred units of cooperatives	(128)	(505)	**(633)**	(482)
Units of a limited partnership	–	–	**–**	–
	(128)	(505)	**(633)**	(482)
	62	21,214	**21,276**	21,191
The unit redemption maturities are detailed as follows:				
Less than one year	–	6,459	**6,459**	38
From 1 to 2 years	4	6,361	**6,365**	411
From 2 to 3 years	4	6,381	**6,385**	18,636
From 3 to 4 years	4	76	**80**	57
From 4 to 5 years	4	73	**77**	62
From 5 to 10 years	4	594	**598**	499
	20	19,944	**19,964**	19,703
No maturity	170	1,775	**1,945**	1,970
	190	21,719	**21,909**	21,673

8. Guarantees, Less Accumulated Provision for Losses

			2004	2003
	Losses Not Refunded by the Québec Government	Losses Refunded by the Québec Government	Total	Total
Guarantees				
Loans	216,280	374,039	**590,319**	592,093
Financial commitment	44,717	845,025	**889,742**	496,705
	260,997	1,219,064	**1,480,061**	1,088,798
Accumulated provision for losses				
Loan guarantees	(39,257)	(104,887)	**(144,144)**	(154,128)
Financial commitment guarantees	(11,297)	(64,216)	(75,513)	(50,916)
	(50,554)	(169,103)	**(219,657)**	(205,044)
	210,443	1,049,961	**1,260,404**	883,754
The guarantee maturities are detailed as follows:				
Less than one year	51,221	99,051	**150,272**	90,924
From 1 to 2 years	21,249	16,354	**37,603**	56,777
From 2 to 3 years	11,873	64,852	**76,725**	16,302
From 3 to 4 years	13,751	15,539	**29,290**	97,452
From 4 to 5 years	30,002	24,573	**54,575**	39,535
From 5 to 10 years	126,977	147,309	**274,286**	308,511
From 10 to 20 years	5,924	851,386	**857,310**	479,297
	260,997	1,219,064	**1,480,061**	1,088,798

The amount of guarantees denominated in US dollars totalled $835.6 million in Canadian dollars as at March 31, 2004 ($443.6 million as at March 31, 2003) and the amount of guarantees denominated in other currencies stood at $41.8 million in Canadian dollars as at March 31, 2004 ($43.2 million as at March 31, 2003).

9. Accumulated Provision for Losses

			2004	2003
	Losses Not Refunded by the Quebec Government	Losses Refunded by the Quebec Government	Total	Total
Balance at beginning of year	92,616	345,328	**437,944**	352,675
Provision for losses[1]	7,608	265,415	**273,023**	141,277
Recoveries	591	29	**620**	825
Write-offs[2]	(6,278)	(41,431)	**(47,709)**	(39,097)
Guarantee disbursements that did not create an asset	(11,196)	(6,590)	**(17,786)**	(17,736)
Balance at end of year	83,341	562,751	**646,092**	437,944

The accumulated provision for losses breaks down as follows:				
Loans	30,416	344,818	**375,234**	205,585
Shares	2,243	48,325	**50,568**	26,833
Units	128	505	**633**	482
Guarantees	50,554	169,103	**219,657**	205,044
	83,341	562,751	**646,092**	437,944

The Corporation can demand that companies provide securities and bonds. The nature of the securities generally concerns the universality of the client company's assets, notably land, buildings, equipment, machinery and furniture. However, the provision for losses takes into account only the value of securities and bonds related to companies that are insolvent or that would likely become insolvent in the short term. The value of securities and bonds related to loans, shares and units stood at $108.2 million as at March 31, 2004 ($175.6 million as at March 31, 2003) and that of securities and bonds related to guarantees concerning companies that are insolvent or that would likely become insolvent in the short term stood at $24.2 million as at March 31, 2004 ($18.8 million as at March 31, 2003).

(1) In response to the deterioration in the provision for losses resulting from the Quebec government's announcement on the closing of the Gaspésia pulp and paper mill, an amount of $2.5 million (nil as at March 31, 2004 ($1.2 million as at March 31, 2003).
(2) Write-offs in the form of restructured loans as well as write-offs for shares have been reduced by $1.8 million for the fiscal year ended March 31, 2004 ($3.1 million as at March 31, 2003).

10. Fixed Assets

			2004	2003
	Cost	Accumulated Depreciation	Net Value	Net Value
Software and computer equipment	2,631	(2,094)	**537**	685
Information systems development	5,858	(5,324)	**534**	1,527
Office furniture	538	(148)	**390**	372
Leasehold improvements	2,428	(768)	**1,660**	1,886
	11,455	(8,334)	**3,121**	4,470

(1) Leasehold improvements comprise fixed assets belonging to an entity controlled by the société immobilière du Québec.

11. Other Assets

	2004	2003
Receivable from the Québec government	12,437	13,406
Deferred fees to financial intermediaries	50,106	28,620
Deferred issuance expenses on long-term debt	5,207	1,568
Interest and dividends receivable on investments	1,117	–
Assets related to financial derivative instruments	15	93
Land held for decontamination purposes (Note 28)	297	290
Other receivables	2,554	2,835
	71,733	46,812

(1) From transactions concluded with the Fonds de financement du gouvernement du Québec.
(2) The tenant of one of the sites has the option to buy the land for one dollar, plus the excess of the cost of clean-up work over the total payments made by the latter to the subsidiary 9071-2918 Québec Inc., according to the terms of a rental agreement. The tenant of the other site has the option to buy the land for one dollar.
(3) No receivable from related entities as at March 31, 2004 ($17,000 as at March 31, 2003).

12. Short-Term Debt

	2004	2003
Banker's acceptances – financial institutions, 2.35%, maturing on April 7, 2004	44,000	72,000
Notes – financial institutions, from 2.27% to 2.35%, maturing between April 1 and 30, 2004	193,900	184,100
Notes – Fonds de financement du gouvernement du Québec, 2.26%, maturing on April 21, 2004	133,000	143,500
	370,900	399,600

Under decrees number 310-2002 and 311-2002, dated March 20, 2002, the Corporation and its subsidiary La Financière du Québec are authorized to contract active short-term loans totalling up to $600 million, until September 30, 2006, with financial institutions or the Fonds de financement du gouvernement du Québec. The total active short-term loans for the two corporations cannot exceed these limits.

As at March 31, 2004, the Corporation had bank credit lines of $10 million, renewable in September 2004. The used amounts bear interest at the lender's prime rate.

13. Long-Term Debt

	2004	2003
Notes – Fonds de financement du gouvernement du Québec		
– 7.50%, matured on December 1, 2003, nominal value of $34.1 million (effective rate of 7.81%)	–	34,096
– at the banker's acceptance rate (3 months) plus 0.03%, matured on December 1, 2003	–	100,000
– at the banker's acceptance rate (1 month) plus 0.19%, maturing on October 1, 2007	75,000	75,000
– at the banker's acceptance rate (1 month) plus 0.28%, maturing on July 17, 2009	175,000	175,000
– 4.33%, maturing on July 9, 2010	28,200	–
– 8.00%, maturing on December 1, 2010, nominal value of $75.6 million (effective rate of 6.07%)	83,126	84,255
– at the banker's acceptance rate (3 months) plus 0.15%, maturing on October 1, 2013	100,000	–
– at the banker's acceptance rate (1 month) plus 0.08%, maturing on October 1, 2013	60,000	–
– at the banker's acceptance rate (1 month) plus 0.05%, maturing on October 1, 2013	162,500	–
– at the banker's acceptance rate (1 month) plus 0.12%, maturing on October 1, 2013	134,120	–
– at the banker's acceptance rate (1 month) plus 0.09%, maturing on October 1, 2013	52,500	–
– at the banker's acceptance rate (1 month) plus 0.21%, maturing on June 1, 2032	47,500	–
Notes – immigrant investors, interest-free, maturing between January 24, 2006 and March 31, 2009	1,085,200	536,000
	2,003,146	1,004,351

Nominal repayments of the principal on long-term debt are as follows:	
2005	–
2006	1,600
2007	191,200
2008	411,000
2009	556,400
2010 and beyond	835,420
	1,995,620

Under decrees number 482-2002 and 483-2002, dated April 24, 2002 and amended by decree number 342-2003, dated March 5, 2003, the Corporation and its subsidiary La Financière du Québec are authorized to contract long-term loans totalling up to $1.5 billion, until September 30, 2006, with the Fonds de financement du gouvernement du Québec. The total active long-term loans for the two corporations cannot exceed this limit.

(a) The Corporation has the option of renewing this loan for a maximum period of 20 years from the maturity date of the loan.
(b) Payment of principal is guaranteed by Québec.

14. Other Liabilities

	2004	2003
Deferred income [1]	**1,982**	2,566
Non-refundable financial contributions and guarantees payable	**4,607**	7,159
Sick leave and vacations payable (Note 27)	**9,863**	9,060
Liabilities related to financial derivative instruments	**–**	132
Fees payable to financial intermediaries	**702**	938
Other payables [2]	**3,016**	3,591
	20,170	23,446

(1) Includes the deferred contribution of the Société du développement économique du Québec for the investments and dividends Data Bank, for an amount of $10,000 as at March 31, 2004 ($10,000 as at March 31, 2003) and $nil million for the Quebec government's deferred contribution for the acquisition of fixed assets as at March 31, 2004 ($nil million as at March 31, 2003).
(2) Include $0.2 million due to related entities as at March 31, 2004 ($1.9 million as at March 31, 2003).

15. Interest Income and Interest Contribution from Quebec Government

	2004	2003
Interest on loans	**36,940**	25,198
Interest on investments	**32,085**	15,112
Interest on cash and temporary investments	**1,986**	1,669
Interest contribution from Québec government on certain low-yield or zero-yield financing operations	**27,688**	21,924
	98,699	63,903

(1) Represents the amount of financing operations for certain investments made by the Quebec government that respond to the support of the Corporation's average borrowing cost over the term of these operations.

16. Interest Charges

	2004	2003
Interest on long-term debt	**26,037**	16,276
Interest on short-term debt and bank charges	**11,052**	10,643
Net losses (net gains) on financial derivative instruments	**511**	(5)
Amortization of issuance expenses on long-term debt	**460**	199
Amortization of long-term debt discounts and premiums	**(1,109)**	(994)
	36,951	26,119

(1) These transactions are settled with the Ministère du Développement économique du Québec.
(2) Interest charges on short-term debt, bank and advances from the Gouvernement du Québec total $1.4 million for the fiscal year ended March 31, 2004 ($4.2 million for the fiscal year ended March 31, 2003).

17. Financial Contributions

	Not Assumed by the Québec Government	Assumed by the Québec Government	2004 Total	2003 Total
Non-refundable financial contributions	10,755	41,463	52,218	77,037
Conditional-refund financial contributions		3,919	3,919	2,597
	10,755	45,382	56,137	79,634

(1) Corresponds to the annual contributions assumed by the Québec government, shown in the statement of income and surplus.

18. Operating and Administrative Expenses[1]

	2004	2003
Salaries and employee benefits	28,754	27,789
Rent	2,419	2,350
Travel, entertainment, advertising and promotion	3,375	4,393
Fees	762	988
Amortization of fixed assets	1,921	2,218
Others	3,358	3,785
	40,589	41,523

(1) Include $34 million related entities for the fiscal year ended March 31, 2004 ($34 million for the fiscal year ended March 31, 2003).

19. Other Expenses

	2004	2003
Share of income – Affiliated company, Canadair Québec Capital S.E.N.C.	20	38
Others	1,952	922
	1,972	960

20. Changes in Non-Cash Items Related to Operating Activities

	2004	2003
Other assets	204	(4,180)
Due and accrued interest on debt	6,898	(3,838)
Other liabilities	(3,084)	2,783
Accumulated provision for losses	(64,875)	(56,008)
Accumulated provision for losses recoverable from the Québec government	47,992	34,026
	(12,865)	(27,217)

21. Financial Derivative Instruments

The Corporation conducts transactions in the form of futures contracts. These contracts are contractual agreements for the purchase or sale of financial instruments at specific prices and at future dates. Futures contracts are traded based on standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

The following table shows the fair value of the Corporation's portfolio of financial derivative instruments as at March 31, 2004, as represented by gains and losses not realized.

			2004	2003
	Positive	Negative	**Net Amount**	Net Amount
3-month futures contracts on banker's acceptances	–	6	**(6)**	(3)
10-year futures contracts on Canadian bonds	–	9	**(9)**	77
		15	**(15)**	74

22. Fair Market Value of Derivative Instruments

Fair market value represents management's estimate of the market value at which a financial instrument may be traded between unrelated parties acting freely under conditions of full competition in the normal course of business; the best indication of fair value is the market price.

When the market price is available, the Corporation uses it to determine the fair market value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures the fair value using valuation methods and assumptions. In such case, the estimated fair value is calculated based on the market situation at a given point in time, and hence does not necessarily reflect the future market value of the instrument.

The table below shows the fair value of balance-sheet and off-balance-sheet financial instruments, including derivatives, established using the valuation methods and assumptions described below. The fair value of assets and liabilities that are not considered financial instruments, such as fixed assets, is not presented in the table.

	2004			2003		
	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
Balance-sheet financial instruments						
Assets						
Cash, bank overdraft and temporary investments	30,907	30,907	–	72,726	72,679	(47)
Investments	1,014,905	1,058,916	**44,011**	437,981	444,591	6,610
Loans, less accumulated provision for losses	801,978	672,302	**(129,676)**	825,344	661,681	(163,663)
Shares and units, less accumulated provision for losses	363,998	90,813	**(273,185)**	87,064	47,853	(39,211)
Futures contracts	15	15	–	93	93	–
Interest contributions from Québec government	–	122,013	**122,013**	–	80,417	80,417
Other assets	16,405	16,405	–	16,624	16,624	–
	2,228,208	1,991,371	**(236,837)**	1,439,832	1,323,938	(115,894)
Liabilities						
Loans	2,374,046	2,258,861	**115,185**	1,403,951	1,320,044	83,907
Futures contracts	–	–	–	132	132	–
Other liabilities	20,592	20,515	**77**	17,057	16,936	121
	2,394,638	2,279,376	**115,262**	1,421,140	1,337,112	84,028
Off-balance-sheet financial instruments						
Guarantees		(397,554)	**(397,554)**		(259,539)	(259,539)
Stock options	–	3,952	**3,952**	–	–	–
	–	(393,602)	**(393,602)**	–	(259,539)	(259,539)
			(515,177)			(291,405)

(1) The fair value of stock options at March 31, 2004 is $3.9 million and is considered insignificant.

The fair value of balance-sheet and off-balance-sheet financial instruments was estimated using the following methods and assumptions:

Cash, bank overdraft, temporary investments, short-term loans and other assets and liabilities

Given the short-term maturities of cash, bank overdraft, temporary investments with maturities not exceeding three months following the date of acquisition, short-term loans and other assets and liabilities, their fair value is considered to be equivalent to the book value.

The fair value of temporary investments with maturities exceeding three months following the date of acquisition is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

Investments

The fair value of investments in securities is determined from the market price. The fair value of notes receivable from the Government of Québec is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

Loans

The fair value of the loans portfolio is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of fixed rate and repayment loans is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for loans with similar conditions and credit risks. The fair value of variable-rate loans or loans with rates that are revised frequently is deemed to be equal to the net book value. The fair value of variable-repayment loans cannot be estimated with reasonable effort, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the net book value. For doubtful loans, the fair value is deemed to be equal to the net book value, in accordance with the valuation methods described in note 2 under "Accumulated provision for losses".

Shares and units

The fair value of shares and units is determined from market prices when they are available. The fair value of preferred shares with an established redemption date and that of fixed rate and repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for shares and units with similar conditions and credit risks. The Corporation feels that, in the case of the other equity securities that are not traded on organized markets, the fair value cannot be estimated with reasonable effort and it is deemed to be equivalent to the net book value.

Futures contracts

The fair value of futures contracts is determined from market prices.

Interest contributions from the Government of Québec

The fair value of interest contributions from the Government of Québec is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of interest contributions from the Government of Québec is estimated by discounting cash flows, using the interest rates of the Government of Québec.

Loans

The fair value of fixed-rate long-term loans is determined based on market prices for debt instruments with similar conditions and credit risks. The fair value of variable-rate long-term loans is deemed to be equal to the net book value.

Guarantees

The fair value of the guarantees portfolio is based on the evaluation of the two following risks: interest rate risk and credit risk. The fair value of guarantees is estimated by discounting guarantee disbursements and fees for anticipated guarantees, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for guarantees with similar conditions and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value corresponds to the accumulated provision for losses, in accordance with the valuation methods described in Note 2 under "Accumulated provision for losses".

Stock options

The fair value of stock options is determined from market prices when they are available. In the case of options that are not traded on organized markets, the fair value is based on the book value of the company concerned.

23. Interest Rate Sensitivity

The asset and liability maturities presented below show the situation as at March 31, 2004 of the sensitivity of the Corporation's balance sheet to interest rate fluctuations.

	Variable Rate	Less Than 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Not Sensitive to Interest Rates	Total
Assets							
Cash and temporary investments	–	4,990	–	–	–	25,917	30,907
Effective Yield		*2.2%*					
Investments	–	–	–	988,103	3,120	23,705	1,014,928
Effective Yield				*5.0%*	*5.2%*		
Loan, shares and units	300,273	6,170	970	4,740	102,215	751,608	1,165,976
Effective Yield		*6.6%*	*7.1%*	*5.0%*	*7.8%*		
Other assets	–	–	–	–	–	637,605	637,605
	300,273	11,160	970	992,843	105,335	1,438,835	2,849,416
Liabilities and equity							
Debt	–	1,077,520	100,000	–	111,326	1,085,200	2,374,046
Effective Yield		*2.4%*	*2.8%*		*5.6%*		
Other liabilities	–	–	–	–	–	252,094	252,094
Equity	–	–	–	–	–	223,276	223,276
		1,077,520	100,000		111,326	1,560,570	2,849,416
On-balance sheet gap	300,273	(1,066,360)	(99,030)	992,843	(5,991)	(121,735)	–
2003 Gap	285,829	(709,571)	2,281	406,102	95,313	(79,954)	–

24. Concentration of Credit Risk

The following table presents a summary of the sectoral distribution of the credit risk.

			2004	2003
	Loans, Shares and Units	Guarantees	**Total**	Total
Primary sector companies	46,350	60,282	**106,632**	110,115
Secondary sector companies				
Transportation equipment	204,306	934,844	**1,139,150**	699,667
Paper	419,605	11,694	**431,299**	301,599
Primary processing metals and metal products	377,995	27,442	**405,437**	104,931
Others	320,877	192,207	**513,084**	498,420
	1,322,783	1,166,187	**2,488,970**	1,604,617
Tertiary sector companies	223,278	253,592	**476,870**	519,374
	1,592,411	1,480,061	**3,072,472**	2,234,106

25. Commitments

In the regular course of its activities, the Corporation makes various commitments, which represent the unused amounts of financing operations offered in the form of loans, shares, units, guarantees and financial contributions. The total amount of these commitments does not necessarily represent future cash requirements, since many of them will expire or may be cancelled without giving rise to cash disbursements.

In addition, the Corporation has undertaken to pay fees to financial intermediaries for the closing of immigrant investor files.

The amounts of the commitments are detailed as follows:

			2004	2003
	Losses Not Refunded and Contributions Not Assumed by the Québec Government	Losses Refunded and Contributions Assumed by the Québec Government	Total	Total
Loans	18,738	571,985	**590,723**	710,232
Shares	–	–	**–**	260,000
Units	–	–	**–**	1,175
Guarantees	71,684	596,461	**668,145**	772,763
Financial contributions	88,753	408,082	**496,835**	343,009
Fees to financial intermediaries	10,975	–	**10,975**	5,786
	190,150	1,576,528	**1,766,678**	2,092,965

The amount of commitments denominated in US dollars totalled $0.4 million in Canadian dollars as at March 31, 2004 ($5.4 million as at March 31, 2003).

26. Pension Plans

The employees of Investissement Québec subscribe to the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These are inter-company defined-benefit plans that include retirement and death guarantees. Investissement Québec's obligations toward these government plans are limited to its contributions as an employer. Investissement Québec's contributions charged to the statement of income for the fiscal year amount to $0.9 million ($0.8 million for the fiscal year ended March 31, 2003).

The employer's responsibilities toward the supplementary pension plans consist in assuming benefits in full when the beneficiary of the plan retires. Thus, no contribution is paid by the employees or the employer. As at March 31, 2004, the employer's obligations stood at $0.1 million. The significant actuarial assumptions used by the Corporation to evaluate its obligations regarding benefits are as follows: the expected rate of return for the plan is 6.75% and the growth rate for compensation is 4%.

27. Sick Leave and Vacations Payable

	2004	2003
Balance at beginning of year	9,060	7,367
Expense for the year	2,891	3,847
Amount paid during the year	(2,088)	(2,154)
Balance at end of year	9,863	9,060

28. Contingencies

Under decree 1421-98 issued by the Québec government on November 11, 1998, 9071-2076 Québec Inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 1998 for the price of one dollar. Investissement Québec will guarantee the environmental liability of this land until funds become available in the subsidiary to assume such liability. The Corporation estimates that the land decontamination and clean-up cost may reach $2.2 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Québec government.

Under decree 1393-2001 issued by the Québec government on November 21, 2001, 9109-3294 Québec Inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 2001 for the price of one dollar. Investissement Québec will guarantee, in part, the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up cost, which it must assume, may reach $12.2 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Québec government.

During a previous year, La Financière du Québec, a subsidiary of Investissement Québec, recorded a gain on disposal of shares from an option, following the sale of all the shares issued by a company. As part of this transaction, the subsidiary, as the seller, agreed to compensate the managing shareholders for damages or losses which they may incur due to the guarantees that they gave to the buyer. The maximum amount that the subsidiary could be held to pay in this regard is $0.6 million. This commitment will end no later than January 15, 2007.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently under way. In the Corporation's opinion, the outcome of these proceedings will not have a significant impact on its financial position or the results of its operations.

29. Subsequent Event

Under decree 315-2004, dated March 31, 2004, the Corporation acquired, on April 1, 2004, at a price equal to the book value, the assets and liabilities of its subsidiary La Financière du Québec. The acquisition price for the latter, in the amount of $97 million, was covered with an advance for the same amount. In addition, on April 27, 2004, the subsidiary redeemed 608,766 shares of the share capital held by the Corporation for an amount of $60.9 million.

30. Related Party Transactions

The Corporation is a related party to all departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the Québec government or are subject to either joint control or significant common influence by the Québec government. The Corporation's business transactions with these related parties were carried out during the normal course of its activities and under usual business conditions. All these transactions, accounted for according to their exchange value, are shown separately in the financial statements.

31. Comparative Figures

Certain figures from fiscal 2003 have been reclassified to conform to the presentation adopted in 2004.

32. Balance Sheets of Investissement Québec and its Subsidiaries

Assets	Investissement Québec Non-Consolidated	La Financière du Québec	IQ Immigrants Investissement Inc.	Other Subsidiaries	Eliminations and Reclassifications	2004 Consolidated Total	2003 Consolidated Total
Cash	2,247	–	393	5	(176)	**2,469**	–
Temporary investments	–	–	28,438	–	–	**28,438**	73,625
Investments	–	–	1,014,905	23	–	**1,014,928**	438,024
Loans, less accumulated provision for losses	661,737	140,241	–	–	–	**801,978**	825,344
Shares, less accumulated provision for losses	338,848	3,874	–	–	–	**342,722**	65,873
Units, less accumulated provision for losses	18,949	2,327	–	–	–	**21,276**	21,191
Accumulated provision for losses recoverable from the Québec government	453,354	109,397	–	–	–	**562,751**	345,328
Investments in subsidiaries, valued under the equity accounting method	165,905	–	–	–	(165,905)	–	–
Advances to subsidiaries	13,958	–	–	–	(13,958)	–	–
Fixed assets	3,121	–	–	–	–	**3,121**	4,470
Other assets	17,769	3,587	51,223	475	(1,321)	**71,733**	46,812
Total assets	1,676,888	259,426	1,094,959	503	(181,360)	**2,849,416**	1,820,667
Liabilities and Equity							
Liabilities							
Outstanding cheques less cash	–	176	–	–	(176)	–	–
Bank overdraft	–	–	–	–	–	–	899
Short-term debt	370,900	–	–	–	–	**370,900**	399,600
Long-term debt	917,946	–	1,085,200	–	–	**2,003,146**	1,004,351
Due and accrued interest on loans	12,267	–	–	–	–	**12,267**	5,369
Advances from the parent company	–	13,556	–	402	(13,958)	–	–
Accumulated provision for losses on guarantees	135,007	84,650	–	–	–	**219,657**	205,044
Other liabilities	16,492	3,130	1,689	180	(1,321)	**20,170**	23,446
	1,452,612	101,512	1,086,889	582	(15,455)	**2,626,140**	1,638,709
Equity							
Initial equity and share capital	32,944	60,877	1	3	(60,881)	**32,944**	32,944
Surplus (deficit)	190,332	97,037	8,069	(82)	(105,024)	**190,332**	149,014
	223,276	157,914	8,070	(79)	(165,905)	**223,276**	181,958
Total liabilities and equity	1,675,888	259,426	1,094,959	503	(181,360)	**2,849,416**	1,820,667
Guarantees, less accumulated provision for losses	827,022	433,382	–	–	–	**1,260,404**	883,754

(1) Eliminations related to balances and transactions between the parent company and its subsidiaries.

33. Statement of Income and Surplus of Investissement Québec and its Subsidiaries

						2004	2003
	Investissement Québec Non-Consolidated	La Financière du Québec	IQ Immigrants Investisseurs inc.	Other Subsidiaries	Eliminations and Reclassifications	Consolidated Total	Consolidated Total
Interest income and interest contribution from the Québec government	51,631	13,909	34,013	–	(854)	**98,699**	63,903
Risk premiums							
Stock options	1,615	2,535	–	–	–	**4,150**	5,288
Others	464	2,591	–	–	–	**3,055**	2,412
Guarantee fees	4,189	8,336	–	–	–	**12,525**	11,360
Commitment fees	3,983	3,683	–	–	–	**7,666**	7,722
Gain on disposal of shares	–	508	–	–	–	**508**	222
Gain on disposal of investments	–	–	504	–	–	**504**	–
Share of earnings distributed by a limited partnership	417	–	–	–	–	**417**	266
Fees – Affiliated company, IQ Immigrants Investisseurs inc.	–	725	–	–	(725)	**–**	–
Other income	2,002	91	512	–	–	**2,605**	1,113
	64,301	32,378	35,029	–	(1,579)	**130,129**	92,286
Interest charges	(36,951)	(854)	–	–	854	**(36,951)**	(26,119)
Fees to financial intermediaries	–	–	(17,747)	–	–	**(17,747)**	(10,435)
Fees – Affiliated company, La Financière du Québec	–	–	(834)	–	834	**–**	–
Net income before provision for losses and the following items	27,350	31,524	16,448	–	109	**75,431**	55,732
Provision for losses	(232,503)	(40,520)	–	–	–	**(273,023)**	(141,277)
Provision for losses recoverable from the Québec government	232,503	32,912	–	–	–	**265,415**	125,450
Net income before the following items	27,350	23,916	16,448	–	109	**67,823**	39,905
Financial contributions	(45,287)	(3)	(10,755)	(92)	–	**(56,137)**	(79,634)
Financial contributions assumed by the Québec government	45,287	3	–	92	–	**45,382**	77,271
Operating and administrative expenses	(21,679)	(18,570)	(391)	–	51	**(40,589)**	(41,523)
Administration fees – Québec government	14,210	12,601	–	–	–	**26,811**	27,585
Other expenses	(1,636)	(69)	(87)	(20)	(160)	**(1,972)**	(960)
Net income before share of income from subsidiaries	18,245	17,878	5,215	(20)	–	**41,318**	22,644
Share of income from subsidiaries	23,073	–	–	–	(23,073)	**–**	–
Net income	41,318	17,878	5,215	(20)	(23,073)	**41,318**	22,644
Surplus (deficit) at the beginning	149,014	79,159	2,854	(62)	(81,951)	**149,014**	126,370
Surplus (deficit) at the end	190,332	97,037	8,069	(82)	(105,024)	**190,332**	149,014

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

Appendices

1 Financing Products Managed by Investissement Québec

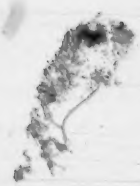
2 Retrospective of the Past Five Years

3 Code of Ethics of the Board of Directors of Investissement Québec

4 Language Policy

5 Reporting of Vice-Presidents' Compensation

6 Methodology Used to Evaluate the Economic Impact of Projects and the Portfolio



Appendix 1

Financing Products Managed by Investissement Québec

Private Investment and Job Creation Promotion Fund (FAIRE)

Financial support program designed to promote major investment and job creation. Through this program, companies can obtain a refundable, non-refundable or conditional-refund financial contribution, or a loan refund guarantee to help them implement their projects.

Buyer Credit

Loan guarantee specially designed to support the sale of goods and services to foreign companies.

SMB Financial

Loan or loan guarantee to help finance investment, innovation, strategic alliance or export projects carried out by small and medium-sized businesses in the manufacturing, propulsive service and tourism sectors. This program allows companies in need of liquidity to temporarily finance tax credits to which they are entitled under the prevailing tax measures. Until March 31, 2004, the SMB Financial program will help support the working capital of companies faced with temporary cash flow problems.

Program to Promote the Financing of Group Entrepreneurship

Program intended to promote the creation, maintenance and development of enterprises in the social economy by means of financial assistance for non-profit organizations or cooperative enterprises or their subsidiaries.

Program to Promote the Capitalization of Social Economy Enterprises

Program to support the capitalization of non-profit organizations or cooperative enterprises.

SMB Spark

Program to meet the financing needs of small start-up or emerging businesses, including their working capital needs, with the possibility of a loan being granted as a last resort.

Immigrant Investor Program for Assistance to Business

Program which seeks to foster economic development by investing in Québec companies some of the income generated by investments entrusted by immigrant investors to IQ Immigrants Investisseurs inc., a subsidiary of Investissement Québec.

Québec Business Investment Corporation (QBIC)

Capitalization instrument designed for Québec small and medium-sized businesses that allows investors to obtain favourable tax benefits.

Tax Measures

Evaluation of business eligibility applications and production of annual eligibility attestations or certificates for refundable tax credits.

Biolevier

Capitalization support program designed to improve access to financing for growing companies in the biotechnology sector, notably through a loan that complements the cash outlay from private investors, to support the development of their products.

Appendix 2

Retrospective of the Past Five Years

Investissement Québec's profile has changed considerably over the past five years. While strengthening its team, the Corporation has improved its products and services, increased its actions in various sectors, expanded and diversified its clientele and boosted its regional presence. Investissement Québec's range of financial and fiscal products has been regularly adapted and expanded to integrate new programs and new fiscal, regional and sectoral measures. In 2003-2004, fiscal measures were re-evaluated and some were abolished. The Private Investment and Job Creation Promotion Fund program (FAIRE), which ended on March 31, 2004, has been replaced by the Strategic Support for Investment Program (PASI).

Québec experienced strong economic growth throughout the second half of the 1990s. Corporate investment, combined with the sharp increase in consumer spending, played a major role in this boom. In 1999 and 2000, the Québec economy enjoyed sustained growth of 4.7% to 6.2% per year (Fig. 1), although lower than that of Ontario.

However in 2001, the slowdown of the U.S. economy had an impact on GDP growth and private capital expenditures in Québec. In fact, the GDP rose by 1.8% in 2001 versus 4.7% in 2000, and corporate investments stagnated at 2.3% per year from 2000 until 2002. The prospect of lower returns and economic uncertainty made entrepreneurs more hesitant. Construction starts were few and far between and the amounts allocated for the purchase of machinery and material fell. After a revival of activities and investments in 2002, the economy slowed down once again in 2003. The Corporation's 2002-2005 business plan had forecast GDP growth of 4.2% in 2003, in accordance with the forecasts of the Conference Board of Canada, but it did not exceed 1.6%. Thus, the economy was less dynamic than expected. Nonetheless, Québec's GDP growth was higher than that of Ontario (1.6% versus 1.3% in Ontario).

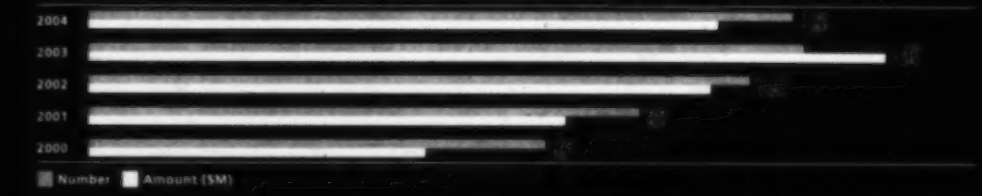
Figure 1 – GDP growth rate at the base price (1997=100)[1]

Source: Institut de la statistique du Québec

In five years, the Corporation authorized 5,215 financing operations as part of complementary financing or support for economic development (Fig. 2). The total value of authorized financing stands at $4.8 billion. Since fiscal 2001-2002, it has authorized more than 1,000 financing operations each year and surpassed the threshold of $1 billion in financing for SMBs and large businesses. The increase in authorized financing since 1999 can be explained by a higher demand, a wider range of financing products as well as a rise in average authorized financing, attributable to major projects.

1 Source: Institut de la statistique du Québec, Interprovincial Data, May 3, 2004.

Figure 2 – Financing operations (in number and in millions of dollars, for the fiscal year ended March 31)



Its operations therefore helped support the projects of 4,153 companies with a total declared value of $25.5 billion (Fig. 3). In 2003, investments peaked as the result of two major projects in the aluminum sector. The average investment ranged between $4 and $6 million per project.

Figure 3 – Declared value of investments[2] (in millions of dollars, for the fiscal year ended March 31)

The companies expected to create close to 92,000 new jobs (Fig. 4) with their investment projects. However, the projects tend to be more capital-intensive than labour-intensive, with the result that the number of jobs created per project decreases every year. In addition, based on the economic and sectoral context, certain projects were aimed primarily at maintaining existing jobs by modernizing production facilities rather than creating jobs.

Figure 4 – New jobs declared[3] (for the fiscal year ended March 31)

The declared value of foreign investment projects for which Investissement Québec provided expertise, financial assistance or fiscal aid stands at $4 billion (Fig. 5) over five years. During 2003-2004 alone, 45 projects estimated at $846 million were implemented thanks to the Corporation's prospecting activities. Of these projects, 16 received financial assistance as part of the FAIRE program.

2. According to the plan provided by companies, project completion is spread over a maximum period of three years.
3. According to the plan provided by companies, job creation is spread over a maximum period of three years.

Figure 5 – Declared value of foreign investments[a] (in millions of dollars, for the fiscal year ended March 31)

Investissement Québec does not claim credit for the full impact of its clients' activities, but rather for the marginal support related to its action. According to overall evaluations and the portion of the impact attributable to Investissement Québec, the revenue associated with project completion and sales is estimated at nearly $3 billion over five years. As for net costs, they stand at close to $1 billion for the same period. In all, the Corporation's operations have proven economically profitable for the government every year (Fig. 6). The decline in the profitability ratio as of 2002 is due to the discrepancy between costs and benefits. In fact, the costs are related to the development of asset items (based on disbursements), while the impact resulting from their use occurred one or two years after the completion of the project.

Figure 6 – Economic profitability (in dollars, for the fiscal year ended March 31)

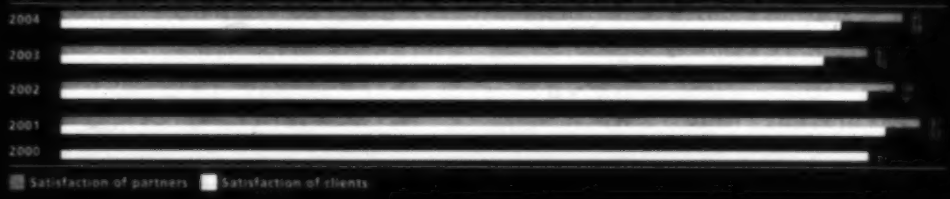
Recognized for its fiscal expertise, Investissement Québec issues eligibility attestations as part of fiscal measures supporting companies established in designated sites or targeted sectors of the economy. In five years, the number of measures managed by the Corporation rose sharply, with the result that the number of initial attestations issued annually quintupled and the number of annual attestations increased six-fold (Fig. 7). However, in 2003-2004, the number of fiscal measures decreased considerably.

Figure 7 – New certificates and attestations, and renewals (in number, for the fiscal year ended March 31)

Assessed on the basis of five priority aspects (reception, professionalism, competence, flexibility, prompt application processing and accessibility), the Corporation's quality of service is generally very much appreciated by its clients and partners, who say they are pleased with Investissement Québec's services. During the past five years, the satisfaction rate has always exceeded 86% for companies and 91% for partners (Fig. 8).

a. Data include only investment projects that have been started up. Certain foreign investments received financial support without having been started up.

Figure 8 – Satisfaction of clients and partners (in %, for the fiscal year ended March 31)

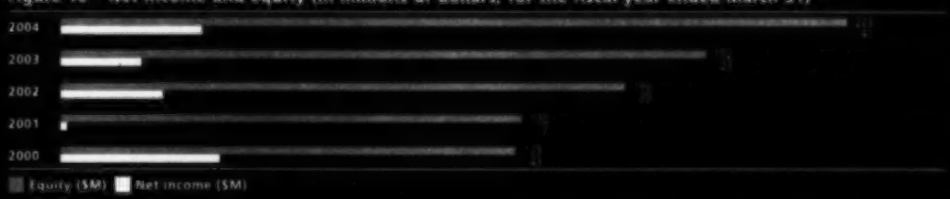


The balance of the portfolio doubled between 2000 and 2004, rising from $1.5 billion to $3.1 billion (Fig. 9). Likewise, the accumulated provision for losses increased from $263 million to $646 million, or 21% of the portfolio.

Figure 9 – Value of portfolio and accumulated provision for losses (in millions of dollars, for the fiscal year ended March 31)

As at March 31, 2004, the Corporation's net income exceeded $40 million (Fig. 10). The major decline in 2000-2001 is attributable mainly to the higher expense for provision for losses related to financial operations not assumed by the government, due to the deterioration of many companies' financial situation. Equity increased every year, up from $128 million in 1999-2000 to $223 million in 2003-2004.

Figure 10 – Net income and equity (in millions of dollars, for the fiscal year ended March 31)



The Corporation succeeded in maintaining the government's contribution to its operating and administrative expenses. Thus, the increase in its expenses was financed with its operating income and the self-financing rate for operating and administrative expenses rose from 14% to 35% over the past five years (Fig. 11).

Figure 11 – Self-financing of operating and administrative expenses (in %, for the fiscal year ended March 31)

The number of financing applications under review over the first four years remained above 500. However, in 2003-2004, the number of applications fell to 462 (Fig. 12). This decline is attributable in part to the termination of several financing programs.

Figure 12 – Financing applications under review (in number, for the fiscal year ended March 31)

Over the past five years, the Corporation has fully accomplished its mission, namely, to promote the growth of investments in Québec and contribute to the economic development of Québec and the creation of jobs. During this period, it doubled the annual value of its financing operations with its main clientele, SMBs, and with major Québec or foreign companies. By authorizing $4.8 billion in financing, Investissement Québec supported investment projects evaluated at $25.8 billion. These projects have generated and will generate an economic impact of $3 billion, which is directly attributable to the financing operations of Investissement Québec.

Recognized for its expertise, the Corporation also increased its participation in the management of financial and fiscal economic development tools on behalf of the Québec government.

While offering recognized quality service to its clients and partners, Investissement Québec has been able to maintain the economic profitability of its operations and has constantly improved its financial management, notably by increasing the portion of operating and administrative expenses that it finances itself.

Appendix 3

Code of Ethics of the Board of Directors of Investissement Québec

On June 17, 1998, the government adopted decree 824-98 on the ethics of public directors. Pursuant to this decree, the members of the Board of Directors of Investissement Québec adopted a Code of Ethics during their meeting of September 26, 2000. The code contains principles that reflect the Corporation's mission, its core values and general management principles.

General Provisions

1. This code applies to any person appointed to the Board of Directors of Investissement-Québec.
2. The members adhere and contribute to the fulfillment of investissement Québec's mission, as described in section 25 of the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1), to wit:

"The mission of the Corporation is to facilitate the growth of investment in Québec and thus contribute to the economic development of Québec and the creation of employment opportunities.

The Corporation centralizes and consolidates the actions of the State to seek out, promote and support investment, and shall become the main channel for communications with the enterprises concerned.

The Corporation strives to stimulate domestic investment and to attract investors from outside Québec. It promotes Québec among investors as a propitious location for investment, offers investors orientation services to guide them in their dealings with the Government, and provides them with financial and technical support.

The Corporation participates in the growth of enterprises, in particular by facilitating research and development and export activities.

The Corporation also works to retain current investment in Québec by providing support to enterprises established in Québec that show particular dynamism or potential."

3. The members adhere to the values and general management principles underlying Investissement Québec's activities: client focus, proactive approach, competence, commitment, integrity, efficiency and effectiveness.

Ethical Rules

4. Any member of the Board of Directors who notices, during a Board of Directors or Executive Committee meeting, that he is in conflict of interest must disclose the interest in writing to the Chairman of the Board, abstain from participating in any deliberation or decision relating to the subject of the conflict, and withdraw for the duration of the deliberation and vote relating to this matter.
5. A member shall avoid putting himself in a position where his personal interest conflicts with the obligations of his duties.
6. Any member who provides, or whose partner provides, professional services for a fee or other consideration to a company, shall abstain, throughout the period in which the services are provided, from communicating with the personnel of Investissement Québec in respect of any financial transaction involving this company and the Corporation. This prohibition is applicable during the year following the termination of the member's mandate.

7. A member may not be designated by Investissement Québec as a managing director for a company.
8. Members shall exercise discretion regarding any information obtained as part of or while exercising their duties and shall at all times respect the confidential nature of such information.

   This obligation shall not prevent a member representing or related to a particular interest group from consulting or reporting to the group, except if the information is confidential under the law or if the Board of Directors requires that such information be kept confidential.
9. A member shall be in conflict of interest when he, his heirs or spouse have, to his knowledge, i) an interest in a client company of Investissement Québec that is a closed company within the meaning of the Securities Act (R.S.Q., V-1.1), ii) an interest of ten percent or more in the voting share capital of a client company of Investissement Québec that is not a closed company within the meaning of the Securities Act (R.S.Q., V-1.1).
10. A member shall be in conflict when the Board is seized of a matter concerning his company, his competitor, the company of a client or that of a relation or a matter of a company that has received a letter of intent or a letter of offer from an entity of which he is a director or an employee.
11. A member shall not accept a gift or other benefits, unless they are customary or of modest value. Any other gift or benefit received shall be returned to the donor or remitted to Investissement Québec.
12. A member shall not, directly or indirectly, grant, solicit or accept a favour or undue benefit, for himself or a third party, from a company that has business relations with Investissement Québec.
13. A member shall, in making his decisions, avoid being influenced by job offers.
14. A member who no longer holds his position shall behave in a manner so as not to take undue advantage of his former position at Investissement Québec.
15. A member who no longer holds his position shall not disclose any confidential information he has obtained or give advice to anyone based on information that is not available to the public concerning Investissement Québec. This prohibition is applicable during the year following the termination of his mandate.
16. An ethics committee has been set up comprising three members appointed by the Board of Directors of Investissement Québec. This committee meets at the request of the Chairman of the Board of Investissement Québec to examine all matters referred to it by the Board of Directors and, where applicable, submits its report to the Board.

Appendix 4

Language Policy

The Corporation applies the language policy adopted by the Board of Directors on September 25, 2001, which is based on the French Language Charter, the government's language policy, the policy concerning government contracts and the policy regarding the use of French in information technologies.

Appendix 5

Reporting of Vice-Presidents' Compensation

In accordance with CT 196753, the compensation of Investissement Québec's vice-presidents must be disclosed to the public. The Corporation reports that the vice-presidents were compensated according to a pay scale ranging from a minimum of $107,403 to a maximum of $134,253.

Appendix 6

Methodology Used to Evaluate the Economic Impact of Projects and the Portfolio

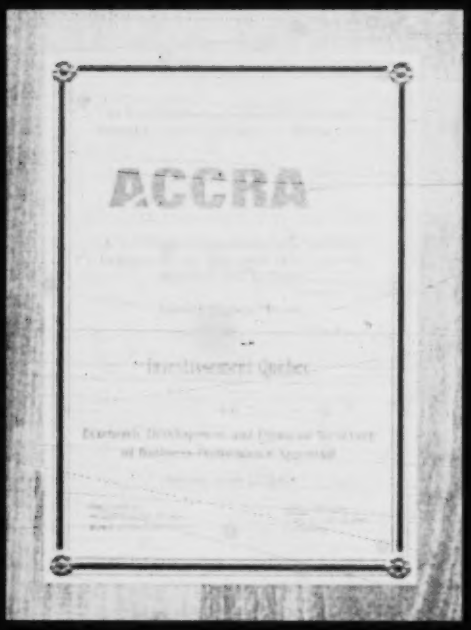
The Corporation evaluates the assets it finances. This evaluation covers all projects financed in 2003-2004, excluding financing offers refused by companies, projects under the Canada-Québec Auxiliary Agreement on Industrial Development, as well as projects related to a sale, which are already evaluated under the portfolio's economic impact.

The analysis focuses on the cost of projects, broken down by type of expenditure: construction, equipment and machinery, professional fees and working capital. The evaluation of the impact of the use of the assets financed by the Corporation takes into account the sales shown on the companies' latest financial statements.

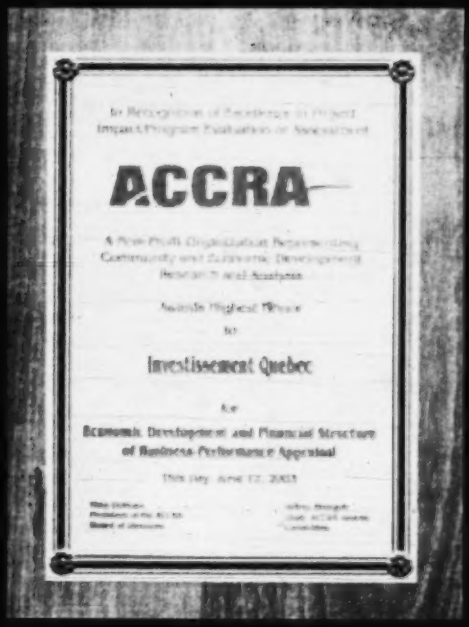
The Institut de la statistique du Québec (ISQ) used these data and its input-output model to evaluate the economic impact of the projects. Yves Dion, economist and professor, and Régis Fortin, professor of finance, both at the Université du Québec à Rimouski (UQAR), analyzed the impact of the projects financed by the Corporation on the Québec economy, by program, by sector and by region.

The methodology used prevents sales from being counted twice, especially in the case of companies that benefited from more than one program. Like last year, the evaluation of the portfolio's impact covers a sample of 77% of client companies. All data were taken from audited or examined financial statements. The results are presented by program, by sector and by region, according to the following parameters: jobs, added value and Québec government revenue. They were produced by the Institut de la statistique du Québec (ISQ), using its input-output model. The composition of Investissement Québec's portfolio changes, such that variations in economic impact over time can be attributable, in part, to the turnover of companies (entering and leaving the portfolio) and not only to their performance or the economic climate.

In addition, the Corporation is able to quantify the portion of the economic impact it generated, thereby evaluating the profitability of its operations. For SMB financing programs and government mandates, this portion corresponds to the impact of projects implemented by companies that exceeded the normal risk threshold of private financial institutions. For the FAIRE program, the portion of the impact attributable to Investissement Québec is proportionate to the probability of non-implementation of a project weighted against the net gain for the economy. Both the project and portfolio evaluations are objective assessments based on a rating system that compares a set of financial and economic parameters. This method and the overall results were presented at many public forums, including the congress of the Association canadienne-française pour l'avancement de la science in 1997 and 1998, the congress of the Canadian Valuation Society in May 1999, the congress of the American Chamber of Commerce Research Association, held in June 2001, and the symposium of the Association de science régionale de langue française, in Trois-Rivières, from August 21 to 23, 2002.



Investissement Québec received "Highest Honor" in 2003 for its study entitled: "Economic Development and Financial Structure of Business". In addition, at the 35th Annual Convention of the Economic Development Association of Canada (EDAC), Investissement Québec garnered two important awards: first prize in the "major development agencies" category and first prize in the "general presentation brochures" category for its general publication on Québec.



Investissement Québec received "Highest Honor" in 2003 for its study entitled: "Economic Development and Financial Structure of Business". In addition, at the 35th Annual Convention of the Economic Development Association of Canada (EDAC), Investissement Québec garnered two important awards: first prize in the "major development agencies" category and first prize in the "general presentation brochures" category for its general publication on Québec.

Investissement Québec

Investissement Québec

1200 de l'Église Street
Suite 500
Sainte-Foy, Québec
Canada G1V 5A3

393 Saint-Jacques Street
Suite 500
Montreal, Quebec
Canada H2Y 1N9

Toll free: 1-866-870-0437
www.investquebec.com

Québec